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IDAHO PUBLIC  
UTILITIES COMMISSION

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Attorney for the Commission Staff

## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION OF )  
COUNTRY CLUB HILLS UTILITIES, INC. FOR ) CASE NO. CCH-W-05-1  
AUTHORITY TO INCREASE ITS RATES AND )  
CHARGES FOR WATER SERVICE ) COMMENTS OF THE  
) COMMISSION STAFF  
)  
\_\_\_\_\_)**

**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 April 8, 2005 Notice of Application, Notice of Modified Procedure and Notice of Comment Deadline in Case No. CCH-W-05-1, submits the following comments.

### **BACKGROUND**

On March 21, 2005, Country Club Hills Utilities, Inc. (Country Club Hills; CCH; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting authority to increase rates and charges for water service. Country Club Hills provides metered water service in the Idaho Falls area to 118 residential customers and 1 commercial customer and flat rate water service to 10 residential customers. The Company's present rates were established in 1990. Country Club Hills contends that a rate increase is required in order to meet system demands and to continue providing uninterrupted water service of the highest quality. The Company's filed Annual Report for the year ending December 31, 2004 reflects annual revenue of \$32,356 and annual operating and interest

expenses of \$41,220, a net loss of \$8,664. Accompanying the Application is a recent invoice from Denning Well Drilling, Inc. dated February 7, 2005 in the amount of \$7,370 for replacement of a 30 H.P. pump in the #2 well.

In its Application, the Company did not include the percentage requested or the amount of revenue desired. It did include a rate design that Staff later calculated would increase its revenue requirement by about 51%. However, the notice that was sent to customers by the Company stated that a request of 30% had been made. The discrepancy appears to be due to the Company's inability to calculate the exact impact of its proposed rate design.

## **STAFF AUDIT AND FINDINGS**

Staff performed a detailed audit of the Company's Application and financial records. The audit included a review of the annual reports, interviews with Company personnel, a detailed review of the Company's books and records and an inspection of Company plant. Through 2003 the water company had no rate base because the system was built with contributed capital. As a result of its audit, Staff proposes a variety of rate base and expense adjustments to the Company's request. The adjustments are described below and can be found on Attachment A to Staff comments.

### **Adjustment 1 – Capital Items**

During 2004 CCH upgraded its control system with new equipment that will allow better monitoring and control of water distribution. These upgrades were expensed in the Materials & Supplies account. Staff believes it would be more appropriate to capitalize these long-term assets and depreciate them over their useful lives. Therefore Staff removes the \$5,327 worth of equipment from 2004 expenses and includes it in rate base. In addition to the items purchased in 2004, CCH upgraded one of its two pumps in February 2005. This new pump is more powerful and has variable speed capabilities. This will address some of the pressure concerns and could potentially reduce the electric demand charges. Since the purchase is known, measurable and appropriate, Staff has included the new pump in rate base and included the pump's depreciation expense below. Because all the equipment was purchased using a line of credit, the required return consists only of debt. Therefore, for ease of understanding, Staff has included interest expense as an allowed expense, rather than a return on the capital purchases.

### **Adjustment 2 – Depreciation Expense**

As noted above, before 2004 all of CCH's assets were considered to be contributed and therefore no depreciation expense was included in rates. However, the upgrades mentioned in Adjustment 1 and the \$7,370 for the new pump that was installed in February 2005 should be included in rate base and depreciated over the useful lives. Staff recommends that the Company depreciate the equipment over thirty years and recover annual depreciation expense of \$423.

### **Adjustment 3 – Reduce Electricity Expense**

Because Staff proposes adding costs associated with the new pump installed in February 2005, the benefits of the pump should also be included. In addition to providing more capacity, the new pump has a variable drive feature that allows the pump to run more efficiently. This feature results in reduced energy and demand charges by eliminating the need to run additional pumps. Staff and the Company estimate that up to \$600 per year will be saved in energy costs by having the variable speed pump. Staff's calculated revenue requirement passes these savings on to customers.

### **Adjustment 4 – Salary for Mike Groth**

The owner of the system, Mike Groth, does not take a salary or a draw from the operating revenues of the system even though he works several hours a week on water company items. Staff believes it is reasonable to include a management fee of \$4,000 in the annual revenue requirement to reflect the time Mr. Groth spends working as the operator/manager of the system.

### **Adjustment 5 – Add Liability Insurance**

Currently the Company does not have any liability insurance. Staff believes it is important to insure the system to protect the Company from unforeseen incidents/accidents. Staff recommends that the Commission require Country Club Hills to purchase liability insurance. Staff adds the \$1,000 per year Mr. Groth believes he needs to allow the Company to secure liability insurance. The Company should be required to provide a status report to the Staff once it secures an appropriate insurance policy.

### **Adjustment 6 – Increase Testing Expense**

Because testing expenses for water supply can vary year to year, the Commission has typically allowed testing expenses of \$750 for each groundwater source of supply. The Company has two wells

and therefore should be allowed the average of \$1,500 per year for testing. Since CCH had lower than average testing expenses for 2004, Staff adds \$702 to the revenue requirement to allow for higher testing expenses in coming years.

#### **Adjustment 7 – Remove Hook Up Fees**

In its Application, the Company included \$430 of hook-up fees as revenue. These funds should be booked to an account that is used to offset the corresponding expenses and thereby hold customers harmless for the costs of hooking customers up to the system. Therefore, Staff removes these funds from operating revenues. Staff recommends that the Company separate the hook-up revenues into a separate account to allow for the tracking of the revenues. While there are currently no plans to significantly expand the system, there are approximately one to four new hook-ups each year.

In its Application, the Company requested an increase in hook-up fees from \$300 to \$500. Staff has reviewed the hook-up rates for other private and municipal water systems in the area and found that \$300 is low compared to the other systems. Staff supports the increase in hook-up fees from \$300 to \$500 and reminds the Company to book the fees in a contribution account that will be used to reduce rate base. Staff will review the Company's hook-up fees in the next audit to make sure the funds were booked and spent appropriately.

#### **Adjustment 8 – Service Line Repair Expense**

The predecessor to Country Club Hills began installation of water facilities in the mid 1970's with a different developer than the current owner. The first developer ran approximately 30 service lines to home sites before declaring bankruptcy and leaving the area. The current owner of the system, Mr. Mike Groth, came in and began building homes on the partially developed lots without knowing that some service drops had been already installed. As a result, the first 30 homes were built with two service lines, one capped by the initial developer and the other metered by Mr. Groth. Major changes to the grade of some lots occurred after the first service lines had been laid. After a few years of development, Mr. Groth realized that there were two service lines. At that time, he notified the homeowners and asked them to locate and remove the unused services lines. Many of the initial service lines remain and after 30 years they are beginning to fail and break. Failure of these abandoned lines can cause loss of system pressure and result in extensive damage to customer property. The lines are very difficult to locate and remove before they break because their location is unknown.

The Company has requested the Commission's assistance. It asks that the Commission either allow funds to be collected in rates to help pay for these repairs as breaks occur or to simply require the individual customers to pay for the repairs. The Company's repair and removal costs have ranged from \$200 to \$4,000<sup>1</sup> for each break with two to four breaks per year and twenty to twenty-five more lines to remove. While some of the repairs can be accomplished at a relatively low cost, it can be very expensive to locate and remove the old lines. Staff recognizes that many of the properties in Country Club Hills have changed ownership. Staff does not believe it should be the sole responsibility of customers to pay for removal of these lines before or after they break but Staff also believes that the Company should not be required to make the repairs without being reimbursed.

To help pay for the anticipated repairs of broken lines, Staff recommends the Company receive \$1,500 per year in its rates and place these funds in a dedicated reserve account. Staff will follow up in future audits to make sure that the Company is performing service line removal and accounting for these reserve funds properly.

### **Adjustment 9 – Additional Revenue Required**

In order to allow the Company to cover all of its reasonable expenses and pay interest on its operating line of credit, Staff recommends an annual increase of \$10,792 or approximately 32%. This amount should allow the Company to operate without its current cash flow deficiency and maintain sufficient reserves to repair the unused service lines as they break. The overall revenue requirement proposed by Staff is \$42,718.

### **RATE DESIGN**

In its filing, the Company proposed the following rate design for the majority of its customers:

1. Increase flat residential customer rates from \$14 per month to \$20 per month (10 customers that live in two condo units. The condos have a separate meter that tracks usage for watering outside lawns.)
2. Increase metered residential rates from \$14 per month with 30,000 gallons to \$20 per month with 15,000 gallons. Raise the additional gallonage charge from \$.35 per 1000 gallons to \$.45 per 1000 gallons (118 customers.)

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<sup>1</sup> While some breaks are only a few feet underground and are easy to identify, the most recent break was 13 feet below ground. To fix the break, the Company had to bring in large excavation equipment and shoring for the workers and incurred significant expense. There were also substantial repairs to the customer's lawn.

3. Increase the flat commercial rate from \$14 per month to \$22 per month (no customers.)
4. Increase the metered commercial rate from \$14 per month for 30,000 gallons to \$22 per month for 30,000 gallons. Raise the additional gallonage charge from \$.35 per 1000 gallons to \$.45 per 1000 gallons (1 customer.)

Staff has calculated the effect of the rate design and believes that it has three flaws. First, the proposed design gives a substantial increase to the customers that use the least amount of water. This sends an inappropriate signal when the Company is trying to have customers conserve water. Second, the proposed rate design is not consistent with Company tariffs currently in place. Currently, there are only three tariffs, a metered residential rate, a condo rate and a landscaping rate. Staff proposes to use tariffs currently in place and not distinguish between commercial and residential customers because there is only one commercial customer who uses relatively small amounts of metered water. Finally, the Company's proposed rate overcollects Staff's proposed revenue requirement dramatically. To correct these flaws, Staff recommends the following rate design:

1. The base charge for all metered customers should be \$17 per month with 30,000 gallons included instead of \$14 per month. After 30,000 gallons, the charge will be \$.60 per 1,000 gallons instead of \$.35 per 1,000 gallons.
2. The ten flat fee condo customers will pay a base charge of \$15.75 per month instead of \$12. This is an increase of approximately 30% and is reasonable compared to the increase of the metered customers. The condo customers do not have meters and use water only for indoor use. The cost to install meters would be substantial and the meters would probably provide little benefit because the condo owners probably use significantly less water than the 30,000 gallons included in the base charge of the metered customers.
3. The associations of the two small condos use the landscaping tariff to water the grass and the landscaping around the condos. They do not take water outside of the landscaping season, and therefore this tariff does not charge a monthly cost during the winter months. Therefore, Staff believes it is reasonable that during the months the water is being used, the owners pay a slightly higher base charge. Staff recommends the rate be increased from \$16 per month for 30,000 gallons to \$20 per month for 30,000 gallons. The rate per 1,000 gallons after 30,000 gallons should be the same as the other metered customers - \$.60 per 1,000 gallons. This results in an increase of approximately 30% for these two customers.

Attachment B shows the effect of the different rate designs for the metered customers. Under the Company's proposal, all customers would receive a higher increase than Staff recommends, and lower usage customers would be penalized compared to higher usage customers. The Company's proposal would not encourage conservation. Under Staff's proposed rate design, customers that use less than the minimum amount would receive a smaller increase than those using significant amounts of water. This rate design should encourage conservation or at least discourage heavy use.

## **CONSUMER ISSUES**

Country Club Hills Water filed a copy of the customer notice with its Application for a General Rate Increase. This notice contained all the required information. However, no press release was filed with the Application as required in the Utility Customer Information Rules IDAPA 31.21.02.10204. Immediately after Staff notified the Company of this requirement, a press release was prepared and delivered to the news organizations in the Idaho Falls area.

Staff reviewed the customer complaints received by the Idaho Public Utilities Commission from January 2001 to May 4, 2005. During that time frame, there was one complaint filed and no inquiries.

As of May 5, 2005, there have been two written comments received since the Application for an increase in rates was filed March 21, 2005. One of the comments was from the same customer who filed the complaint in 2002, reiterating the customer's experience. That issue was resolved within a few days after contacting the Commission, in the customer's favor. The other comment was unsigned and complained that the water pressure is terrible.

The workshop held on April 27, 2005 in Idaho Falls was not attended by any customers. Staff took advantage of the time to discuss several items with the Company. The Company admitted that there were one or two customers located at the higher elevations who did complain from time to time about a lack of water pressure, usually in the summer months in the early hours when people were getting ready for school and work. The new pump installed in February 2005 should address some of these concerns. Staff would also like to encourage customers to use less water. Mr. Groth shared with Staff the meter readings of the 15 highest users for the month of May 2004, which showed usage from 87,000 to 252,000 gallons of water during that one month for each customer. The Company has a 150,000 gallon storage tank but it is pumped dry on a regular basis. Mr. Groth explained that he has gone door to door asking customers to change the timers on sprinklers or alter watering to every-other

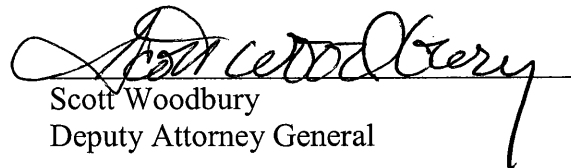
day or every third day, but those effects have been unsuccessful in reducing the amount of water being used. The Staff's proposed rate design will encourage customers to conserve water.

## RECOMMENDATIONS

Based on the comments above, Staff has the following recommendations:

1. Allow an increase of 32% in revenues associated with a total revenue requirement of \$42,718 per year.
2. Allow an increase in the hook up fees from \$300 to \$500. Require the Company to book the hook-up fees as a customer contribution.
3. Allow Country Club Hills to collect \$1,500 per year in rates to be used exclusively for the repair of the unused service lines. This amount should be carefully documented for review during later audits.
4. Set the rate design for all metered customers (except landscaping only customers) at \$17 per month with 30,000 gallons included. After 30,000 gallons, the charge will be \$.60 per 1,000 gallons.
5. Set the flat fee condo rate at \$15.75 per month.
6. Set the landscaping rate at \$20 for 30,000 gallons per month during the months of use. For greater usage the charge should also be \$.60 per 1,000 gallons.
7. Require the Company to submit an update on liability insurance.

Respectfully submitted this 11<sup>th</sup> day of May 2005.

  
Scott Woodbury  
Deputy Attorney General

Technical Staff: Alden Holm  
Dave Schunke  
Carol Cooper

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	Company Reported	1	2	3	4	5	6	7	8	9	Staff Recommended
	2004										2004
Revenues											
Water Revenues	32,356							(430)		10,792	42,718
Expenses											
Labor - Operations	4,429				4,000						8,429
Labor - Customer Accounts	490										490
Purchased Power	8,325			(600)							7,725
Materials & Supp. - Operations	9,662	(5,327)							1,500		5,835
Materials & Supp. - Admin.	659										659
Contract Services - Professional	2,643						702				2,643
Contract Services - Testing	798										1,500
Property Rental	3,850										3,850
Transportation Expense	3,088										3,088
Miscellaneous Expense	4,905										4,905
Regulatory Fee (IPUC)	87										87
Property Tax	494										494
DEQ Fees	555										555
Other License & Fees	185										185
Depreciation Expense	0		423								423
Liability Insurance Expense	0					1,000					1,000
State Income Taxes	30										30
Interest Charges	820										820
Total Expense	41,020										42,718
Net Income (Loss)	(8,664)										(0)
Staff Adjustments		Amount	Number								
Pull out capital items & capitalize		(5,327)	1								
Depreciation expense of capital items		423	2								
Reduce Electricity expense		(600)	3								
Salary for Mike Groth		4,000	4								
Add liability insurance		1,000	5								
Increase testing expense		702	6								
Remove hook up fees		(430)	7								
Repair expense		1,500	8								
Additional Revenue Required		10,792	9								
									Staff Recommended Increase	32%	

**Country Club Hills Utilities, Inc.**  
**Company and Staff Proposed Rate Designs**  
**May 11, 2005**

<b>Monthly Water Bill - Metered Residential and Commercial Customers</b>						
		<b>Company</b>				
	<b>Current</b>	<b>Proposed</b>				
<b>Monthly</b>	<b>Rate</b>	<b>Rate</b>			<b>Staff</b>	
<b>Use</b>	<b>Structure</b>	<b>Structure</b>	<b>% Change</b>		<b>Proposed</b>	<b>% Change</b>
	<b>\$</b>	<b>\$</b>			<b>\$</b>	
5,000.00	\$14.00	\$20.00	43%		\$17.00	21%
10,000.00	\$14.00	\$20.00	43%		\$17.00	21%
15,000.00	\$14.00	\$20.00	43%		\$17.00	21%
20,000.00	\$14.00	\$22.25	59%		\$17.00	21%
25,000.00	\$14.00	\$24.50	75%		\$17.00	21%
30,000.00	\$14.00	\$26.75	91%		\$17.00	21%
35,000.00	\$15.75	\$29.00	84%		\$20.50	30%
40,000.00	\$17.50	\$31.25	79%		\$24.00	37%
45,000.00	\$19.25	\$33.50	74%		\$27.50	43%
50,000.00	\$21.00	\$35.75	70%		\$31.00	48%
55,000.00	\$22.75	\$38.00	67%		\$34.50	52%
60,000.00	\$24.50	\$40.25	64%		\$38.00	55%
65,000.00	\$26.25	\$42.50	62%		\$41.50	58%
70,000.00	\$28.00	\$44.75	60%		\$45.00	61%
75,000.00	\$29.75	\$47.00	58%		\$48.50	63%
80,000.00	\$31.50	\$49.25	56%		\$52.00	65%
85,000.00	\$33.25	\$51.50	55%		\$55.50	67%
90,000.00	\$35.00	\$53.75	54%		\$59.00	69%
95,000.00	\$36.75	\$56.00	52%		\$62.50	70%
100,000.00	\$38.50	\$58.25	51%		\$66.00	71%
150,000.00	\$56.00	\$80.75	44%		\$101.00	80%
200,000.00	\$73.50	\$103.25	40%		\$136.00	85%
250,000.00	\$91.00	\$125.75	38%		\$171.00	88%
300,000.00	\$108.50	\$148.25	37%		\$206.00	90%
350,000.00	\$126.00	\$170.75	36%		\$241.00	91%
400,000.00	\$143.50	\$193.25	35%		\$276.00	92%
450,000.00	\$161.00	\$215.75	34%		\$311.00	93%
500,000.00	\$178.50	\$238.25	33%		\$346.00	94%

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 11<sup>TH</sup> DAY OF MAY 2005, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. CCH-W-05-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

MIKE GROTH  
COUNTRY CLUB HILLS UTILITIES  
570 S YELLOWSTONE AVE  
IDAHO FALLS ID 83402

  
\_\_\_\_\_  
SECRETARY

CERTIFICATE OF SERVICE