

DECISION MEMORANDUM

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FROM: SCOTT WOODBURY

DATE: AUGUST 22, 2002

RE: CASE NO. GNR-W-02-2 (Aspen Creek Water)
APPLICATION FOR CERTIFICATION OF PUBLIC CONVENIENCE AND
NECESSITY

On March 27, 2002, Aspen Creek Water Co., Inc. (Aspen Creek; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting a Certificate of Public Convenience and Necessity to serve a small water system located in the Fish Haven, Idaho area in Bear Lake County. Reference *Idaho Code* § 61-526; IDAPA 31.01.01.111. The Company presently has 29 part-time customers (summer homes) in a subdivision that has 65 lots. Additional development, the Company states, could grow the water system to more than 200 customers.

Aspen Creek's present water rates are \$25 per month for the first 15,000 gallons and \$1 per 1,000 gallons after that. No one, the Company states, presently uses more than the monthly minimum. The Company reports that there is only one customer that waters any grass at all. All customers are required to have water meters.

Included with the Company's Application is a balance sheet and income statement. Also included is a detailed legal description of the area along with a subdivision plat map, and a piping map. The piping map is "as built" except for a booster station that is not needed at this time and a well house that is not entirely complete yet.

On June 4, 2002, the Commission issued a Notice of Application and Modified Procedure in Case No. GNR-W-02-02. A copy of the Commission's Notice was mailed to each customer currently taking service. The deadline for filing written comments was August 1, 2002. Commission Staff was the only party to file comments. Staff has reviewed the Company's filing, visited the Company's offices, reviewed its financial position and toured the service area. Staff's comments can be summarized as follows:

Service Area:

Regarding the proposed service area, Staff found the legal description contained in the Company's filing to be inadequate and requested more precise information. Aspen Creek complied with Staff's request. The legal description for the service area should read as follows:

The service area of the Aspen Creek Water Company is located in Township 16 South, Range 43 East, Boise-Meridian, Bear Lake County, Idaho. More specifically as follows, portions of the Southwest One-Quarter and West One-Half of Section 15, also including portions of the North One-Half of the Northwest One-Quarter and the West One-Half of the Northeast One-Quarter of Section 22.

A full legal description of each parcel within the service area is on file with the Commission.

Financial Position:

Attached to Staff's comments is a pro forma income statement and a pro forma balance sheet for Aspen Creek. Staff believes that it is reasonable to recognize certain operating costs that the Company reasonably can anticipate that were not incurred during the first partial year of operation. Among these costs are: Idaho Department of Environmental Quality Annual Assessment Costs; Idaho Public Utilities Commission Annual Regulatory Fees; required annual water testing expenses; and reasonable travel expenses. Staff also adjusted the reporting revenues to eliminate homeowner association charges not related to the water service operation and annualized the revenues that would have been collected for the year at the \$25 per month rate requested by the Company. Staff has also adjusted the reported revenue to treat customer hook-up charges (\$1,000 per hook-up) as contributions in aid of construction rather than

revenue. Coincident with the adjustment for hook-up charges, Staff has eliminated the actual cost of making the hook-ups from the Company's expenses and has capitalized these costs to the plant and service accounts. This approach, Staff contends, is a more appropriate method of accounting for such costs and charges.

The pro forma income statement developed by Staff produces a net pro forma loss for the partial year 2001 of \$1,986.96. To overcome this loss, the rates for this Company would have to be increased to an average of \$36.83 per month for each of the 14 customers connected to the system during the 2001 partial year. Staff notes that this Company is a young company just beginning to develop its customer base. The water company is owned and operated by the developers of the subdivision. The water company has no investment in the initial backbone system. Reference Commission Rule 103 for Small Water Companies. The existing subdivision is platted for a total of 65 building lots. Staff believes it is reasonable for the owners/developers of this subdivision and water system to expect the development company to bear some of the water system operating costs until such time as a reasonable customer base is established.

Staff notes that the Idaho Department of Environmental Quality requested that the owners of this water system establish a reserve account to ensure that there are funds available to pay for future repair and replacement costs. The Company complied and set up an escrow account at their bank for this purpose. At December 31, 2001, this account had a balance of \$4,598, that includes interest earned on the original amount of \$4,559. Staff supports and encourages the use of such a reserve account for small under-capitalized water companies. To be most effective, Staff recommends that the account should only be used for major repairs and replacement costs rather than day-to-day operation and maintenance costs.

Revenue Requirement and Rate Design:

Based upon the limited financial data available at this time, Staff recommends that the rates proposed by the Company be approved. Even though the rates today result in a loss, Staff contends that to increase the rates at this time would likely result in over-collection. All of the development lots are ready for hook-ups and many connections are planned in the future.

Staff notes that the rates proposed by the Company are a \$25 per month minimum charge that includes the first 15,000 gallons of water consumed per month plus \$1 per 1,000 gallons in excess of 15,000 gallons consumed per month. Staff has been informed that, because of the part-time use of the vacation homes connected to the system, no customer has ever

exceeded the 15,000 gallons per month included in the minimum charge. The rates of the Company, Staff contends, are more like a flat rate (unmetered) system but with the conservation incentive of meters to discourage unnecessary waste of water.

Reconnection Charges:

In its Application, Staff notes that the Company was silent regarding charges to be imposed when and if a customer is disconnected from the system. It is normal practice, Staff contends, for a utility to impose a reconnection charge to help defray the cost of actually performing the disconnection and reconnection. The imposition of these charges is intended to avoid passing these costs onto other customers through basic water rates.

On July 29, 2002, Staff notes that it filed comments on this issue in Case No. SWS-W-02-01 for the Stoneridge Water System in Blanchard, Idaho. Stoneridge, like Aspen Creek, Staff contends, is primarily a vacation or second home type community. Such water systems can and should expect to receive requests from customers for seasonal water disconnections. When this occurs, the Company will realize a reduction in its revenues during the period of disconnection. This revenue reduction will lead to upward pressure on the basic water rates of the Company. In recognition of this problem, Staff in the Stoneridge case recommended two separate and distinct reconnection charges. The first would be assessed for customers who for any reason were temporarily disconnected for a period of less than thirty (30) days. The second reconnection charge (seasonal disconnection) would be imposed on customers who at their own request were disconnected for a period of more than 30 days. Staff believes this approach is appropriate for Aspen Creek as well, and proposes a normal reconnection charge (30-days or less) of \$15 during normal business hours and \$25 for after hours or weekend reconnections. Reconnection charges for seasonal disconnections (more than 30-days), Staff contends, should be set at three (3 x) times the monthly minimum charges, in this case that would be \$75 during normal business hours with an additional \$10 charge for after hours or weekend reconnections. Staff believes this approach is fair and equitable to all of the customers in the Aspen Creek system as well as the Company. With such a policy, Staff contends, the Company's rates are stabilized, full-time customers who did not disconnect from the system are not required to pay the short-fall in revenues created by the seasonal customers, the seasonal customers make their decision to disconnect based upon factors other than avoiding water bills,

and seasonal customers pay a more proportional share of the fixed costs required to operate and maintain them for their benefit.

Consumer Relations:

The Consumer Staff is working with Aspen Creek Water Company, Inc. to ensure that billing information and customer notices provided to customers in the future will comply with the requirements set forth in the Commission's Utility Customer Relations Rule (UCRR), and Utility Customer Information Rules (UCIR).

Staff notes that the Company has been provided a set of tariffs outlining general rules and regulations for small water companies that Aspen Creek Water Company has reviewed and has agreed to adopt. It will sign those tariff pages and return them to the Commission for its approval.

Staff notes also that the Company submitted a copy of its bill statement, a seven-day disconnect notice, a 24-hour disconnect notice and a summary of rules. The Company, Staff states, has willingly agreed to make minor changes to bring its forms into compliance with the Commission requirements. Of particular note, the out-of-state telephone number provided on bill statements is a local number for Fish Haven residents.

Management and Operations:

Staff contends that the Company's management and operations appear to meet or exceed the Commission's minimum requirements. The management of the Company, Staff states, has experience managing similar activities. The system-certified operator has an in depth knowledge of the system and previous experience operating similar systems in and around the Bear Lake area.

Staff Recommendations:

Staff recommends that the Company be granted a Certificate of Convenience and Necessity for the geographic area identified in Staff's comments. Staff recommends that the Company's rates be approved as requested in the Application with periodic Staff audits to assure that rates remain at an appropriate level. Staff also recommends that the Company establish a reconnection charge of \$15 for customers disconnected from the system for thirty-days or less and a reconnection charge of \$75 for customers disconnected from the system for a period of more than thirty days, with an additional \$10 charge for after hours or weekend reconnections.

Commission Decision

Aspen Creek Water Company has applied for a Certificate of Public Convenience and Necessity to serve a small water system located in the Fish Haven Idaho area in Bear Lake County. Staff recommends that a Certificate be granted and that the Company's rates be approved as requested. Staff also recommends that a reconnection charge be approved.

- Does the Commission find it reasonable to grant a Certificate and approve the requested and recommended rates and charges?
- Does the Commission find it reasonable to require the Company to adopt and implement the Commission's Customer Relations Rules (IDAPA 31.21.01), Customer Information Rules (IDAPA 31.21.02), and Small Water Policies (IDAPA 31.36.01), including an accounting system consistent with the information required by the Commission's annual report for small water companies?
- Does the Commission find it reasonable to require Aspen Creek to notify its customers, including property owners listed, but not yet taking service, of the Commission approved rates and policies?
- Does the Commission find it reasonable to require Aspen Creek to make written Petition or Application to the Commission prior to any proposed change in ownership of the Aspen Creek Water Company?

Scott Woodbury

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