

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL**

FROM: SCOTT WOODBURY

DATE: MAY 7, 2003

**SUBJECT: CASE NO. GNR-W-02-3 (Diamond Bar Estates Water Company)
APPLICATION FOR CERTIFICATE OF PC&N AND FOR APPROVAL
OF RELATED RATES AND CHARGES**

On November 29, 2002, Diamond Bar Estates LLC dba Diamond Bar Estates Water Company (Diamond Bar; Company) filed an Application with the Idaho Public Utilities Commission for a Certificate of Public Convenience and Necessity to serve the Diamond Bar Estates Subdivision in Kootenai County, Idaho. Reference Application Attachments, legal description and maps of subdivision and service area; *Idaho Code* § 61-526; Commission Rules of Procedure, IDAPA 31.01.01.111. Diamond Bar Estates is more particularly described as a portion of the North ½ of Section 3, Township 51 North, Range 4 West Boise-Meridian, Kootenai County, Idaho.

Attached to the Application of Diamond Bar are 1) financial statements for 2000 and 2001 with profit and loss statements, 2) water rates from different water districts, 3) rate schedule information, 4) names of customers and addresses, 5) legal description, 6) plat map, 7) request for tariff connection fees, 8) customer notice for discontinuance of service, 9) bill statement, and 10) rule summary.

The Company indicates that the water system currently provides service to 37 customers. When complete, ultimately, the Company will serve 45 households with water service. The Company indicates that initial service was started in 1994 by Diamond Bar Homeowners. On June 3, 2002, the Homeowners Association elected to turn the water system

over to Diamond Bar Estates LLC. The Company proposes a 2001 test year and an annual revenue requirement of \$23,123.

The rate structure proposed by Diamond Bar is as follows:

A customer's water usage will be determined by the reading on the meter. Readings will be taken the first week of each month (April through November) and the consumption figures will be measured in gallons used.

Diamond Bar Water Company will bill each current customer every month based on the following rate schedule which, as proposed, will go into effect January 1, 2003.

Domestic Service:

0-7500 gallons	\$21.00
more than 7500 gallons	.85 per thousand

Irrigation Service: .75 per thousand for all consumption

During the months of December through March, meters will not be read. The customers will be charged the base rate of \$21.00 per month. In April of each year customers' meters will be read and usage will be prorated according to the number of months since the last reading.

In addition to the commodity charge, the Company proposes implementing the following non-recurring charges:

- A charge of \$1,000 for installation of water meter
- A charge of \$500 for water hookup fee
- A fee of \$50 will be charged for reconnection during business hours
- A fee of \$65 will be charged for reconnection after normal business hours and weekends.

The existing rates of the Company for residential customers are \$15 for the first 7500 gallons plus \$.95 per 1,000 gallons thereafter. Customers with irrigation service pay a flat fee of \$225 per year for irrigation.

The Commission in Order No. 29177 suspended the Company's proposed January 1, 2003 effective date and determined that the Company shall continue charging existing rates and charges until such time as the Commission issues an Order accepting, rejecting or modifying the Application.

On January 10, 2003, the Commission issued a Notice of Application, Public Workshop and Modified Procedure in Case No. GNR-W-02-3. Individual copies of the Commission's Notice were provided to all customers. A public workshop conducted by Commission Staff was held in Rathdrum, Idaho on February 11, 2003 to discuss the Company's Application. The established deadlines for filing written comments were February 18, 2003 for customers and February 21, 2003 for Commission Staff. Reply comments were filed by the Company on March 17, 2003.

On April 29, 2003, following the initial round of comments, a public hearing was held in Rathdrum to establish a formal transcript record of customer testimony and oral comments regarding the Company's Application and the various proposals for revenue requirement, rate design, and rates and charges. A May 6, 2003 deadline was established for further written comments. The comments can be summarized as follows:

Customer Comments

Numerous and sometimes multiple written comments were filed with the Commission by customers of Diamond Bar. All comments were distributed to the Commissioners and are part of the official case file. Customer comments filed by February 19, 2003 were summarized in the following manner by Commission Staff:

The number beside each item shown below reflects the number of customers who address that particular issue in their comments. If a customer filed multiple comments on a particular issue, his or her comments are counted only once. For example, if a customer filed three comments and objected to the proposed rate design in each comment, his or her comment would only be counted once as objecting to the rate design. Because customers discussed multiple issues, the total exceeds ten.

- Objects to change from flat fee for irrigation water to a metered rate. (5 of 10)
- Objects to developer selling lots based on flat irrigation fee and then changing policy when development's CC&R's require landscaping. (5 of 10)
- Objects to proposed rate increase. (5 of 10)
- Found a rate plan like one Staff proposed had merit. (3 of 10)
- Pump replacement cost covered by insurance; should not be in rate base. (3 of 10)

- Concerned about water pressure if all properties use irrigation; already notices lower water pressure during irrigation season. (2 of 10)
- Request for either another workshop or a hearing before the Commission makes its final decision. (2 of 10)
- Objects to Staff's failure to provide customers its workpapers so customers could make meaningful comments at workshop. (2 of 10)
- The Company's Application said it had 31 water users when there are 38 users, with a possible 45 when the subdivision is full. (2 of 10)
- Mobile generator can work only on the back up well at Rob Turnipseed's due to size of the generator. Since the generator is mobile and can be used in multiple locations Diamond Bar customers should not pay for entire cost of generator. (2 of 10)
- Cost of electricity overstated. (2 of 10)
- Requests that all customers be required to support the water system, including owners of a vacant lot. (2 of 10)
- Objects to unfairness of being billed on a monthly basis when meters aren't read during winter months. (1 of 10)
- Encourages irrigation meters to be read once annually to cut costs. (1 of 10)
- Questions the potential for meter error and costs associated with installing and removing irrigation meters each year. (1 of 10)
- Customer thought IPUC Staff was condescending, insulting, and threatening during workshop discussions. (1 of 10)
- Request for Commission to reject the Company's Application and refer it back to the homeowners association for further consideration. (1 of 10)
- Customer provided water rate comparisons using three local non-regulated water systems. (1 of 10)
- Meter read costs should be based on 8 months only (no reads during winter). (1 of 10)
- One customer provided an alternate rate design on disk. (1 of 10) See Staff revised Attachment E.

Public Hearing – April 29, 2003

Two customers testified at the public hearing. Ms. Carol Abelhanz noted that the Company provides its utility billings to customers by postcard and that the annual postage expense should be reduced from \$172.20 to \$137.76, an annual difference of \$34.00.

Mr. Mike Meehan in his testimony (see attached summary) presents an alternative rate structure that continues a flat irrigation rate of \$250/summer, a domestic metered rate of \$.50/1,000 gallons up to 90,000 gallons and \$.70/1,000 gallons for usage exceeding 90,000 gallons. Also proposed is an annual fee of \$180 for all lot owners, regardless of whether or not they are hooked up. As calculated, Mr. Meehan's proposal provides the Company with total annual revenue of \$16,392 (irrigation \$5,750; domestic \$2,542; customer charge \$8,100).

May 6, 2003 Comments

In customer comments filed, the Commission is apprised that customers were without water for three hours on May 3, 2003 during a scheduled interruption of electric power by Kootenai Electric. During this outage, the water company did not engage its emergency back up generation. The commenting customer contends that the Commission should require the water company to provide standby power generation capacity that is automatic when the primary source is lost. Failing same, the customer contends that customers are subjected to serious loss of property and perhaps life.

Staff Comments

Following some general comments regarding the Diamond Bar Estates water system and its prior history as a homeowners association system, Staff addresses the following areas in its comments: financial analysis, rate design, hookup fees and consumer issues. Based on its investigation and analysis, Staff makes the following recommendations:

1. The Certificate Request: No objection has been received by the Commission from any party other than the customer comment expressing a desire to revisit the transfer of the system from the Association to Diamond Bar Estates, LLC. Staff recommends the Commission express its intent to issue a Certificate of Convenience and Necessity in sixty (60) days unless it receives positive proof that indeed the Association has entered into negotiation/litigation to reverse the sale transaction and return the system to the Association.
2. Staff recommends that the Commission either schedule a public hearing or provide the company and its customers an opportunity to present written responses to these Staff Comments.

3. Revenue Requirement: Staff recommends that the Commission determine that a revenue requirement of \$16,104 is just and reasonable unless the Company or customers submit compelling evidence that this revenue requirement is not justified.
4. The Commission should direct the Company to submit documentation supporting the requested rate case expense amortization and adjust the revenue requirement to reflect the actual costs.
5. Rate Design: Staff recommends that the Commission establish a single fixed/variable rate design for all water use with a base rate of \$21.00 for the first 7,500 gallons of consumption and \$0.50/1000 gallons for consumption in excess of the 7,500 gallon base.
6. Staff recommends that the rate design be reevaluated after one year to assess how usage patterns may have changed, what effect the new rates have had on customers bills, and how effectively the rate design generates the revenue requirement authorized by the Commission.
7. Staff recommends denial of the \$1,000.00 domestic water meter fee and the \$500.00 domestic water hook-up fee. The Company was unable to provide cost justification for the level of these fees. In addition, these fees were recovered from each lot owner at the time of purchase.
8. Staff recommends the Company work with Staff to develop an appropriate line extension tariff for the system and have it in place prior to extension of any service beyond the subdivision boundary.
9. Staff recommends approval of the Company's requested \$500.00 one time meter fee for irrigation meters.
10. Staff recommends that customer reconnection fees (voluntarily or involuntarily disconnected) be set at \$15.00 during normal business hours and \$30.00 at all other times. This charge does not apply to the seasonal installation or removal of irrigation meters.

Attached to this Decision Memo are Staff schedules for calculation of revenue requirement, Staff adjustment worksheets and alternative rate design proposals.

Company Reply Comments

The Company prefaces its reply comments by stating that it is the reluctant owner of the water system and would be willing to negotiate a sale of the water system back to homeowners association.

As a privately owned system, however, the Company contends that water customers must pay rates that support a self-sustaining system. How the system was financed when Mr. Turnipseed, as the developer, operated the system, the Company states, is of no important to the analysis now before the Commission. The water system became a self-supporting system on the date of the transfer from the homeowners association to the LLC, June 3, 2002.

The Company provides the following specific comments regarding Staff proposed adjustments:

Staff Adjustment (I): Technical Computer Support.

Company Position. The Company agrees that this is a one-time cost, however, this is a cost that will provide benefits for several years. If Staff does not want this cost to be expensed, then the Company contends it should be capitalized and depreciated over five years as are other computer expenses.

Staff Position. Staff agrees with the Company's proposal to capitalize and depreciate technical computer support expense over five years.

Staff Adjustment (J): Backup Generator.

Company Position. The Company is disappointed that the Staff recognizes the need and usefulness of backup generation but only wants to give credit for one-half of the cost of a generator. It appears to the Company that Staff's position is based in large part upon comments made by the Company that the generator would be mounted on a trailer. The Company informs the Commission of its intent to use the generator full-time as a backup generator for the system and permanently install and place the generator at the backup well location. The Company requests that the Commission allow full recovery of the cost of a generator including the related cost of installing and housing. The estimated cost of installing the generator is \$11,838. The cost break down is as follows: generator \$5,500; concrete pad \$1,438; electric transfer switch/hookup \$2,500; and building \$2,400. Without full recovery of the ordinary and necessary operating costs such as the cost of a backup generator, the Company contends that the water system cannot operate.

Staff Position. Staff concedes that it discounted the emergency backup generator by 50% due to mobility. Staff notes that the second well, generator and proposed housing are located outside the subdivision on property belonging to the Turnipseed family and not the water company. Staff contends that for rate base consideration, the Company should obtain an

easement from the Turnipseed family for permanent rights of access to the building, well and generator. Staff notes that the Company has indicated that it is unwilling to grant an easement. That being the case, should a back up generator at the second well continue to be a reasonable requirement, Staff suggests that a service contract may be appropriate. No contract price has been proposed.

Staff Adjustment (L): Irrigation Meters.

Company Position. The Company notes that the meters on hand are presently being used and are part of the property acquired and transferred to the Company by the homeowners association. How the purchase of these meters were treated on the prior books, the Company contends, is of no consequence. Without being able to rate base the meters and expense replacement meters, the Company contends that there is simply no reasonable method to recover these costs. Without any manner for recovery, no further investment can be made. Staff's contention that a one-time connection fee of \$500 is sufficient to offset the cost of the meter investment for rate base purposes is disputed by the Company. Revenue generated from a \$500 connection fee, the Company states, would be insufficient.

Staff Position. Staff disagrees with the Company. Staff notes that what the Company is proposing would result in three classes of meters. The first class would be developer contributed meters, the initial 10 contributed prior to 2001. The second class would be the five meters in dispute acquired during 2001/2002 for which the Company requested to rate base \$2,951. The third class would be future meters which would be customer contributed.

Staff Adjustment (M): Rate Case Expense.

Company Position. Staff in its comments recommended that documentation be submitted supporting this expense item. In preparation of the Application for the workshop, the Company reports that it has spent \$500 in accounting fees and \$585 in legal fees. The Company estimates that it will spend an additional \$800 in accounting fees and \$900 in legal fees to perfect its reply comments. Should a formal appeal prove necessary, the Company states that it is not unreasonable to expect the associated fees to reach and even exceed the \$4,000 expense originally presented by the Company. Therefore, the Company continues to request that \$4,000 of rate case expense be provided in the rate base calculation.

Staff Position. The Company has presented documentation consisting of actual and estimated or projected costs. The actual billed costs are \$1,085. Estimated additional costs to

date are \$1,700. Staff contends that the remaining \$1,215 for costs of appeal are speculative and should not be allowed.

Staff Adjustment (N & O): Depreciation.

Company Position. Should the Company's arguments concerning the inclusion of irrigation meters and the backup generator in the rate base prevail, the Company requests that the depreciation expenses addressed in Staff Adjustments N & O be recalculated.

Staff Position. Staff tenders for Commission consideration a schedule depicting the result of Company requested changes to Staff revenue requirement adjustments.

Inflation.

Company Position. The Company included a 3% inflation factor anticipating that utility suppliers, Avista and Kootenai Electric Coop will receive rate adjustments this year increasing the cost of electricity to the Company. Given the low snowpack experienced by northern Idaho this winter, the Company does not believe its request to be arbitrary. The Company continues to request that a 3% inflation factor be included in the rate base.

Staff Position. Neither Avista nor Kootenai Electric have requested or implemented a change in rates. The Company's requested inflation factor is speculative and should be denied as being neither known nor measurable.

Hook-up Fees.

Company Position. Staff recommended a line extension policy in lieu of a hook-up fee and connection fee. The Company does not have a line extension policy in place. A sampling of surrounding water companies was completed and submitted as a part of the original Application. The Company contends that it is customary and typical of small water companies in northern Idaho to charge a hook-up fee and connection fee. The Company maintains that the charges presented are reasonable based upon the charges of similar water companies in the area and appear to be sufficient to reimburse the Company for the costs incurred for such connections.

Staff Position. Staff notes that regarding those lots in the subdivision, costs have already been paid. Should the Company choose to extend service outside the subdivision, Staff contends that the Company would need to request a Certificate amendment. The Company proposes \$1,500 for domestic hook-up (\$1,000 for the meter \$500 for hook-up fees) and \$500 for irrigation hook-ups.

Rate Design.

Company Position. Staff recommends a fixed variable rate design without a separate rate for irrigation. The Company prefers a separate rate for irrigation. However, knowing Staff's preference on the issue, and its recommendation for a \$21 base charge for the first 7500 gallons and then \$.50 per 1000 gallons for each gallon thereafter, the Company tested the proposed rate against current data for water usage. The Company states that its analysis shows that the rate design proposed by Staff would be insufficient to meet the revenue needs established by Staff, \$16,104, for the system. The Company respectfully requests that the base rate charge be changed from \$21 to \$23.50 so that the revenue needs established by Staff can be met. Additionally, if the Commission should determine to allow any or all of the changes requested by the Company, the Company requests that the base rate be further increased to allow coverage for the revenue requirement allowed. The Company includes a survey of water rates from different water districts in the area.

Staff Position. Staff notes that what the Company is proposing is using actual versus normalized. Staff notes that a lot of customers have not established their lawns and their storage usage will increase.

Need for Additional Workshop.

Company Position. If further workshops are required to establish rate base, the Company states that its costs under comment M should be increased. Further information required of the Company will be furnished upon request.

COMMISSION DECISION

Diamond Bar Estates Water Company has applied for a Certificate of Public Convenience and Necessity and for approval of related rates and charges. Staff recommends that the Certificate be granted and recommends that the requested rates and charges be adjusted. The customers have provided their comments and the Company and customers have responded to Staff's proposed adjustments. A public hearing has been held to provide customers an additional opportunity to comment.

Certificate

Does the Commission believe that a Certificate should be issued to Diamond Bar?

Revenue Requirement

Should an emergency generator be required for back up at the second well site? If so, should it be rate based or expensed under a service contract? Other Staff, customer, Company adjustments? What revenue requirement is appropriate?

Rate Design/Non-Recurring Charges

Staff has proposed an all-metered rate for domestic and irrigation water. Mr. Meehan proposes a flat rate for irrigation, a metered domestic rate and an annual customer charge for all lot owners, regardless of usage. What charges, rates and rate design are appropriate?

Scott Woodbury

b1s/M:GNRW0203_sw3

Diamond Bar Estates
Revenue Requirement
Year Ended 12/31/2001

(A)	(B) As Filed by Company	(C) Staff Adjustments	(D) Staff Recommendation	(E) Adj. Ref.
Expenses:				
1 Meter Statements	\$ 560.00	\$ (560.00)	\$ -	(I)
2 Water Testing	500.00	250.00	750.00	(C)
3 Meter Reading	350.00	(22.00)	328.00	(B)
4 Regulatory Fees (DEQ)	120.00	135.00	255.00	(D)
5 Meter Repair & Maint	1,500.00	(522.55)	977.45	(G)
6 Well Repair & Maint	400.00		400.00	
7 Elec & Gas	4,500.00	(342.03)	4,157.97	(F)
8 Maint & Repair	1,900.00	(1,158.75)	741.25	(H)
9 Auto Expense	300.00	12.65	312.65	(E)
10 Casual Labor	330.00		330.00	
11 Depreciation Exp	994.00	(771.10)	222.90	(N)
12 Rate Case Expense Amortization	800.00		800.00	
13 Insurance	1,300.00		1,300.00	
14 Postage & Delivery	415.00	(188.80)	226.20	(A)
15 Bookkeeping/Customer Billing	1,800.00		1,800.00	
16 Legal Fees	228.00		228.00	
17 Management Fees	2,400.00		2,400.00	
18 Property Taxes	120.00		120.00	
19 Income Taxes	50.00	(50.00)	-	(P)
20 Total Expenses	\$ 18,567.00	\$ (3,217.58)	\$ 15,349.42	
21 Rate Base				
	As Filed by Company	Staff Adjustments	Staff Recommendation	
22 Investment in System				
23 Generator	\$ 5,500.00	\$ (2,750.00)	\$ 2,750.00	(J)
24 New Pump	14,482.00	(11,982.00)	2,500.00	(K)
25 Irrigation Meters	2,951.00	(2,951.00)	-	(L)
26 Rate Case Expense	4,000.00	(4,000.00)	-	(M)
27 Total	\$ 26,933.00	\$ (21,683.00)	\$ 5,250.00	
	* Note: Appl had incorrect total of 23,933			
28 Less Accumulated Depreciation				
29 Generator	196.00	(98.00)	98.00	(O)
30 New Pump	-		-	
31 Irrigation Meters	-		-	
32 Net Rate Base	\$ 27,731.00		\$ 5,152.00	
33	* Note: Co. Rate Base Total does not compute			
34 Rate of Return	0.14		0.12	
35 Net Operating Income Requirement	\$ 3,882.34		\$ 618.24	
36 Gross-up Factor for Income Tax			1.22	(P)
37 Pre-Tax Revenue Requirement	\$ 3,882.34		\$ 754.50	
38 Add Expenses	18,567.00		15,349.42	
39 Gross Revenue Requirement	\$ 22,449.34		\$ 16,103.93	
40 Inflation Factor Gross-up	1.03		-	
41 Revenue Requirement	\$ 23,122.82		\$ 16,103.93	

Attachment C
Case No. GNR-W-02-3
Staff Comments
02/21/03

Diamond Bar Estates Water Co.
PUC Staff Adjustments Worksheet
Assumes 41 Lots Improved and Taking Service

(A)	Cust Billing Cost Estimate (Excluding Labor)			
	No. Cust		41	
	Mo. Postage	\$	0.37	
	Materials		0.10	
	Cust Billing Cost / Mo.	\$	14.35	
	Annual Billing Cost	\$	172.20	
	A/P & Correspondence (Excluding Labor)			
	Cks(correspondence) / Mo.		10	
	Postage	\$	0.37	
	Materials		0.10	
	Cost / Mo		4.50	
	Annual Cost	\$	54.00	
	Total Postage & Supplies			\$226.20
(B)	Meter Reading			
	Cost per Lot per Read	\$	1.00	
	Number of Lots		41	
	Number of Reads per Year		8	
	Annual Cost			\$328.00
(C)	Water Testing (6 year cycle Normalized)	\$	750.00	
	Expense Included in Application		500.00	
	Adjustment			\$250.00
(D)	Regulatory Fees			
	DEQ (\$5 / Customer)	\$	205.00	
	PUC (Statutory Minimum)		50.00	
	Total			\$255.00
(E)	Auto Expense			
	Round Trip Mileage to Coeur d'Alene		20	
	Trips per Year		24	
	Total miles		480	
	1 mile per day to monitor system		365	
	Total Annual Miles		845	
	Mileage allowance per Mile	\$	0.37	
	Total Annual Cost			\$312.65

Diamond Bar Estates Water Co.
PUC Staff Adjustments Worksheet
Assumes 41 Lots Improved and Taking Service

(F) ElectricPower

Recalculate for 41 Users

Billing Date	Vendor	Pumphouse Gas Heat	Electric Pumping	Total
Aug-01	Avista	\$ 3.28		\$ 3.28
	Kootenai		\$ 236.90	236.90
Sep-01	Avista	3.28		3.28
	Kootenai		429.97	429.97
Oct-01	Kootenai		360.65	360.65
Nov-01	Avista	29.31		29.31
	Kootenai		323.70	323.70
Dec-01	Avista	75.08		75.08
	Kootenai		116.18	116.18
Jan-02	Kootenai		79.91	79.91
	Avista	114.57		114.57
Feb-02	Kootenai		72.91	72.91
	Avista	129.83		129.83
Mar-02	Kootenai		70.43	70.43
	Avista	115.47		115.47
Apr-02	Kootenai		67.33	67.33
	Avista	69.70		69.70
May-02	Avista	35.59		35.59
	Kootenai		78.43	78.43
Jun-02	Avista	76.88		76.88
	Kootenai		86.86	86.86
Jul-02	Avista	3.28		3.28
			200.83	200.83
		\$656.27	\$2,124.10	\$2,780.37

Actual Consumption (Gallons)	8,939,320
Pump Power Cost / 000 Gal	\$ 0.24
Annualized Consumption (41 Customers) (000 Gal.)	14,737
Annualized Pumping System Elec Cost	\$ 3,501.70
Add Pumphouse Gas Heat	656.27
Total Annualized Power Cost	\$4,157.97

Diamond Bar Estates Water Co.
PUC Staff Adjustments Worksheet
Assumes 41 Lots Improved and Taking Service

(G)	Meter Repair and Maintenance			
	As Booked by Company	\$ 1,493.74		
	Eliminate Irrigation meter purchase	<u>(516.29)</u>		
	PUC Staff Adjusted Total		\$	977.45
(H)	Maintenance Exp.			
	As Booked by Company	\$ 1,900.00		
	Remove Dev. Co. Costs	<u>(1,158.75)</u>		
	PUC Staff Adjusted Total		\$	741.25
(I)	Meter Statements Expense			
	As proposed by Company	\$560.00		
	Reverse and Remove	<u>(560.00)</u>		
				\$0.00
(J)	Generator Investment			
	As Proposed by Company	\$ 5,500.00		
	Eliminate 1/2	<u>(2,750.00)</u>		
	PUC Staff Adjusted Total		\$	2,750.00
(K)	New Pump Investment			
	As Proposed by Company	14,482.00		
	Eliminate Insurance Paid Portion	<u>(11,982.00)</u>		
	PUC Staff Adjusted Total		\$	2,500.00
(L)	Meters Investment			
	As Proposed by Company	\$ 2,951.00		
	Reverse to Remove	<u>(2,951.00)</u>		
	PUC Staff Adjusted Total		\$	-
(M)	Unamortized Rate Case Expense			
	As Proposed by Company	\$ 4,000.00		
	Eliminate From Rate Base	<u>(4,000.00)</u>		
	PUC Staff Adjusted Total		\$	-
(N)	Depreciation Expense			
	1 Meters As Proposed by Company	\$ 74.00		
	Reverse to Remove		\$	(74.00)
	2 New Pump As Proposed by Company	724.00		
	Eliminate Depreciation on portion Paid by Insurance (\$11,982 / 20 Years)			(599.10)
	3 Generator As Proposed by Company	196.00		
	Eliminate 1/2			<u>(98.00)</u>
	PUC Staff Adjustment		\$	(771.10)

Diamond Bar Estates Water Co.
PUC Staff Adjustments Worksheet
Assumes 41 Lots Improved and Taking Service

(O)	Accumulated Depreciation			
	Generator Proposed by Company	\$	196.00	
	Eliminate 1/2		<u>(98.00)</u>	
	PUC Staff Adjusted Total			\$ 98.00
(P)	Eliminate Tax Included by Company	\$	(50.00)	
	Substitute Tax Gross-up Calculation			
	Taxable		100.0%	
	State Rate		<u>3.6%</u>	
	Subject to Fed Tax		<u>96.4%</u>	
	Fed Effective Rate @ 15%		<u>14.5%</u>	
	After Tax Net Residual		<u>81.9%</u>	
	Net to Gross Multiplier			1.220405175

**Diamond Bar Estates Water Company
Rate Design Alternatives**

Revenue Requirement \$ 16,104
Number of Customers 41

Description	Domestic Service			Irrigation Service			Totals				Over (Under) Revenue Requirement
	Monthly Base Charge	Volume Charge per 1000 Gal	Flat Rate	Charge Per 1000 Gal	Ave Annual Irrigation Charge	Largest 4* Cust Ann Irr Bill	Largest 4* Cust Ave Annual Bill	Ave Customer's Annual Bill	Ave Customer's Monthly Bill	Total Estimated Revenue	
Existing Rates	\$ 15.00	\$ 0.95	\$ 225.00	\$ -	\$ 225.00	\$ 225.00	\$ 423.82	\$ 346.35	\$ 28.86	\$ 14,200	\$ (1,904)
Company Proposed	\$ 21.00	\$ 0.85	INA	\$ 0.75	\$ 339.18	\$ 424.81	\$ 693.62	\$ 471.85	\$ 39.32	\$ 19,346	\$ 3,242
Staff Proposal	\$ 21.00	\$ 0.50	INA	\$ 0.50	\$ 226.12	\$ 283.21	\$ 545.09	\$ 395.03	\$ 32.92	\$ 16,196	\$ 92
Flat Rate Opt.	\$ 32.73	-	-	-	-	-	\$ 392.76	\$ 392.76	\$ 32.73	\$ 16,103	\$ (1)

* Note: Largest Four Customers Based on Total Monthly Consumption

Attachment E
Case No. GNR-W-02-3
Staff Comments
02/21/03

Diamond Bar Estates Case No. GNR-W-02-3
 Effect of Company response to Staff Comments on Revenue Requirement

CORRECTED 1/10/03

Avg Monthly Cost
 Per Customer

(I) Technical Computer Support			
Initial Amount	\$ 560.00		
Return	12%		
Net Operating Income Requirement	\$ 67.20		
Gross-up Factor	1.22		
Revenue Requirement		\$ 81.98	
Add 5 Yr Amortization		112.00	
Total Additional Revenue Requirement		\$ 193.98	\$ 0.39
(J) Backup Generator			
Co. Proposed original Investment Amount	\$ 5,500.00		
Included by Staff	(2,750.00)		
Additional Initial Investment	\$ 2,750.00		
(O) Addl Accumulated Depreciation	\$ (98.00)		
Additional Net Investment	\$ 2,652.00		
Return	12.00%		
Net Operating Income Requirement	\$ 318.24		
Gross-up Factor	\$ 1.22		
Revenue Requirement		\$ 388.25	\$ 0.79
(J) New Investment (Borrowed Funds)	\$ 6,388.00		
(O) Additional Accumulated Depreciation	-		
Net Additional Investment	\$ 6,388.00		
Return (Debt Service Cost)	4.75%	Note: Prime rate 4.25% effective 11/07/02 + 1/2%	
Net Operating Income Requirement	\$ 303.43		
Gross-up Factor	N/A	Note: Debt interest is tax deductible	
Revenue Requirement		\$ 303.43	\$ 0.62
(N) Add Depreciation Expense			
Bldg & Concrete Pad (40 Yr Life)	\$ 3,838.00	95.95	
Elec Trans/Switching (25 Yr Life)	2,500.00	100	
Addl 1/2 Generator (25 Yr Life)	2,750.00	110	
Additional Revenue Requirement		\$ 609.38	\$ 1.24
Total Additional Revenue Requirement		\$ 1,301.06	\$ 2.64
(L) Irrigation Meters			
Total Investment	\$ 2,951.00		
Return	12%		
Net Operating Income Requirement	\$ 354.12		
Gross-up Factor	\$ 1.22		
Revenue Requirement		\$ 432.03	
(N) Add Depreciation Expense (40 Yr Life)		\$ 73.78	
Total Additional Revenue Requirement		\$ 505.80	\$ 1.03
(M) Rate Case Expense (5 Yr Amortization)			
Accounting Expenditures (unsupported)	\$ 500.00	100	\$ 0.20
Legal Expenditures (unsupported)	585.00	117	0.24
Additional Accounting Estimate (unsupported)	800.00	160	0.33
Additional Legal Estimate (unsupported)	900.00	180	0.37
Appeal Contingency	1,215.00	243	0.49
Total Additional Revenue Requirement	\$ 4,000.00	800	\$ 1.63
Inflation Adjustment at 3%			
Not Quantified by Co. But if applied to			
All Operating Expense	15349.42	460.4826	\$ 0.94
Elec & Gas Only	4157.97	124.7391	\$ 0.25

Diamond Bar Estates Water Company Rate Design Alternatives

Staff Proposed Rev Rqmt \$ 16,104
 Company Reply Rev Rqmt \$ 19,365 - Assumes approval of all requested Company adjustments
 Number of Customers 41

Description	Domestic Service			Irrigation Service			Totals				Change in Average Customer's Monthly Bill	
	Monthly Base Charge	Volume In Base 1000 Gal	Charge per 1000 Gal	Flat Rate	Charge Per 1000 Gal	Ave Annual Irrigation Charge	Ave Customer's Annual Bill	Ave Customer's Monthly Bill	Total Estimated Revenue	Over (Under) Staff Proposed Revenue Requirement		Over (Under) Company Reply Rev Rqmt
Existing Rates	\$ 15.00	7,500	\$ 0.95	\$ 225.00	-	\$ 225.00	\$ 346.35	\$ 28.86	\$ 14,200	\$ (1,904)	\$ (5,165)	136%
Company Proposed	\$ 21.00	7,500	\$ 0.85	NA	\$ 0.75	\$ 339.18	\$ 471.85	\$ 39.32	\$ 19,346	\$ 3,242	\$ (19)	114%
Staff Proposed	\$ 21.00	7,500	\$ 0.50	NA	\$ 0.50	\$ 226.12	\$ 395.03	\$ 32.92	\$ 16,196	\$ 92	\$ (3,169)	113%
Flat Rate Opt.	\$ 32.73	-	-	\$ -	-	-	\$ 392.76	\$ 32.73	\$ 16,103	\$ (1)	\$ (3,262)	121%
Est of Customer Proposed Rate Option	\$ 15.00	-	\$ 0.70-\$0.90	\$ 250.00	-	\$ 250.00	\$ 419.56	\$ 34.96	\$ 17,202	\$ 1,098	\$ (2,163)	121%
Staff Proposed With Co Reply Rev Rqmt	\$ 27.50	7,500	\$ 0.50	NA	\$ 0.50	\$ 226.12	\$ 473.03	\$ 39.42	\$ 19,394	\$ 3,290	\$ 29	137%
Flat Rate Opt. With Co. Reply Rev Rqmt	\$ 39.00	-	-	\$ -	-	-	\$ 468.00	\$ 39.00	\$ 19,198	\$ 3,084	\$ (177)	135%

Written Comments summarizing oral testimony of
Mike Meehan. April 29, 2003.

Diamond Bar Water

Basis of proposal

1. During 12 month period 11/1/2001 to 10/31/2002 there were 34 homes on the system for the entire period.

17 used less than 90,000 gallons (7500 x 12) during the period, the remainder used over 90,000 gallons. In at least 1 case the homeowner was charged for using over 7500 gallons in a month, even though the total usage was 55,000 gallons.
2. During the summer of 2002 there were 19 homes on the irrigation system.
3. Currently there are 41 homes on the system.

Proposal for new rates:

- A. Irrigation to be a flat rate of \$250/summer. Assuming the 19 from last year renew plus the 4 others know to be planning on using irrigation this produces \$5750.
- B. Assuming the usage of the 34 does not change and the 7 new homes use the average of the 17 who used less than 90k gals. (52256) the base usage of all amounts up to 90k gallons would be 2,740,092 gals. and the excess would be 1,674,310 gals.. At the rate of \$.50/1000 up to 90k and 0.7/1000 above this generates \$2,542.
- C. All lot owners benefit from the system, regardless of whether or not they are hooked up. Therefore all 45 lots should pay an annual fee of \$180. to maintain the system. This produces \$8100. (If the PUC feels they receive no economic benefit from having the system available, and thus they can't be billed the remaining 41 homes would have to pick up that share of the cost $((180 \times 4)/41) = \$17.56/\text{year}$ 197.56.
- D. Total revenue to the water co. \$16,392.

Why the new proposal?

- I. Development was sold on the premise of flat rate irrigation!
- II. It is not fair for some lot owners to escape responsibility for basic system maintenance, in as much as the system is there for their future use or to enhance the future selling price.
- III. It is not fair to charge homeowners for water they do not use, thus the charges based on a 12 month period. If someone currently uses over 7500 gals in a summer month they are charged an excess rate (the same holds true in the Staff proposal) but, if one month during the period Nov. - Mar. they go over 7500 but if the average for the 5 months is less than 7500 there is no excess fee.

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- IV. The annual fee would be billed upon approval by the PUC of the new structure. Usage could be billed on a bi-monthly, quarterly, or other basis to avoid billing for small amounts, i.e. 7000 gallons would produce a bill of \$3.50.

M. R. Meehan
2003/04/29