VALLEY VIEW WATER

CASE NO. GNR-W-96-1

IDAHO PUBLIC UTILITIES COMMISSION

STAFF REPORT

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IPUC STAFF ANALYSIS

OF

VALLEY VIEW WATER

INTRODUCTION

On March 14, 1994 the Idaho Public Utilities Commission (Commission) received a petition and complaint from customers of the Valley View Water system (Company), which is part of Valley View Subdivision Inc.  The petition complained of high rates, arbitrary and excessive rate increases, poor service and unreasonable restrictions on water users.  The petition requested that the Commission determine if the Company was a public utility and set rates.  Pursuant to this petition and complaints received from individuals earlier in 1994, the Commission Staff (Staff) began an investigation into the complaints and petition.

The Staff interrupted its investigation in mid-1994 when the customers of the water system began to take action to organize a water and sewer district exempt from the jurisdiction of the Commission.  On March 14, 1995 a petition was filed with the District Court of the Second Judicial District of the State of Idaho, in and for the County of Idaho.  An election was held on August 1, 1995 for the creation of the district and for the election of officers.  District Judge George Reinhardt signed an order on December 20, 1995 creating the Valley View Water and Sewer District (District).

Since that time, the members of the District have been negotiating with the system owner for purchase of the system.  As of May 1996, an agreement for terms of purchase had not been reached, negotiations appeared to have stagnated and the Staff began to  receive additional complaints and requests from customers for intervention by the Commission.  At the Staff’s request, the Commission issued Order No. 26487 on June 10, 1996 initiating a formal case to determine whether the water system, as it exists, is a public utility subject to the Commission’s jurisdiction.

GENERAL OVERVIEW OF THE SYSTEM

The Valley View Subdivision is located along the Clearwater River approximately two miles southeast of the town of Kamiah in Idaho County.  The subdivision lies on a relatively steep hillside on the east side of US Highway 12 opposite the river.

Mr. John Jasper, the current owner, together with two former partners formed a corporation in 1970 known as Jamco.  The primary business of this corporation was land development including what is now known as the Valley View subdivision.  The partners in this corporation eventually dissolved their business relationship and in 1993, Mr. Jasper became sole owner of the remaining assets of the Jamco Corporation.  Mr. Jasper formally renamed the corporation Valley View Subdivision Inc. (Subdivision).

Development of the subdivision required the installation of both a central water system and a central sewer system.  The water and sewer systems currently serve 47 residential and 2 commercial customers.  A more detailed description of the physical characteristics of the water system follows under the “Engineering Analysis” section of this report.  Valley View Subdivision Inc. owns not only the water and sewer systems but  41 lots within the platted portion of the subdivision that have not been sold or developed.  It also owns eleven acres of unplatted property adjacent to the subdivision.

Mr. Jasper also owns a gas station/convenience store/souvenir shop located within the subdivision.  This venture, known as Valley View Station, (Station) is not a part of Valley View Subdivision Inc. but is almost indistinguishable in its operation.  Office space and equipment within the store serve the Station, the water system operation, the sewer system operation and for marketing lots in the subdivision.  Valley View Subdivision Inc. has no employees.  Employees of the Station perform whatever labor is necessary to operate and maintain each of these activities.  Mr. Jasper’s general policy is to bill the Subdivision, by the Station, for direct labor costs at $10 to $15 per hour.  The Station also bills the Subdivision $50 per month to monitor water levels in the water reservoirs and sewage lagoon, maintain water pumps and sewer aeration pumps, and mow weeds around wells, reservoirs and sewage ponds.  However, very few billings and payments actually are recorded.

Our investigation of this Corporation has convinced us that the domestic water service provided within the Valley View subdivision is being operated as a public utility subject to the Commission’s jurisdiction.  (See Idaho Code §§ 61-125 & 61-129)  The sewer system operation is exempt from Commission regulation.

The Idaho Division of Environmental Quality (DEQ) has, for several years, imposed sanitary restrictions on the Valley View Subdivision.  These sanitary restrictions result from problems identified with the sewer system that need to be corrected.  It appears the water system is adequate from DEQ’s perspective.  However, DEQ has imposed a moratorium on new construction within the subdivision until the sewer system is corrected.  While these restrictions are in place, no new water connections will be made so, in the near term, water customer growth is expected to be zero.

The remainder of this report addresses the financial condition of the water system, the adequacy of the physical assets to provide reasonable service, customer rules, regulations and relations, revenue requirements and rate design.

WATER SYSTEM FINANCIAL ANALYSIS AND REVENUE REQUIREMENT

The fiscal year for Valley View Subdivision Inc. is July 1 through June 30.  This analysis is based primarily upon the 12 month period ending June 30, 1996.

Presumption of Contributed Capital

This system was installed as an integral part of the real estate subdividing activities of the developers.  It is Staff’s interpretation that Commission Rule No. 103 (IDAPA 31.36.01103) establishes a presumption in such cases that the original developers recover their initial investment in the water system through the sale of subdivision lots.  Therefore, the capital investment dedicated to public service (rate base) is limited to the replacement cost of original equipment that has failed and has been replaced together with the cost of any system improvements.

Rate Base

Rate base is not, and does not purport to be, either an appraisal of fair market value or replacement cost of a water system.  It is a ratemaking tool used to determine the reasonableness of a water system’s rates and the resulting return to the owners of the system.

Readers of this report should not confuse the rate base valuation with the value of this system for sale purposes.

Exhibit No. 101 attached to this report itemizes the investments that meet the above criteria for rate base treatment.  As shown on that exhibit, the total rate base for the Valley View Subdivision water system is $28,529.75.  This rate base includes:  1) the original cost of replacement equipment and improvements; 2) accumulated depreciation for each item in recognition of its age; 3) a reduction in the cost for contributions received from customers for meter installation and connection charges; and 4) an allowance for working capital necessary to provide daily operating funds.  The working capital allowance is calculated from the operating and maintenance (O&M) expenses detailed on Exhibit No. 102 attached.  Generally, the Commission allows 1/8 of the annual O&M expenses (45 days) as a reasonable working capital allowance for small water systems.

Expenditures

As noted above, the owner of this water system has several other business activities that are in some cases almost indistinguishable from the operation of the water system.  Shared facilities, equipment and employees make it necessary to isolate the operating costs of each of the activities.

Exhibit No. 102 attached to this report was prepared using cash disbursements from a separate checkbook maintained for the water and sewer systems.  Analysis of each disbursement is required to determine a reasonable allocation between business activities as well as to make a determination regarding the classification of each expenditure as an expense or investment.  As shown in Column “C” of this exhibit, even though a separate checkbook is maintained for the water and sewer systems, some of the expenditures actually support other activities.  The allocation percentages shown here, and noted at the bottom of the exhibit, distribute each expenditure to the service(s) that are supported by the expenditure.  The water system totals shown on this exhibit are included in the rate base calculation (Exhibit No. 101) and the revenue requirement calculation (Exhibit No. 104).

There are certain non-cash expenditures recognized in the lower portion of this exhibit.  These non-cash items recognize the value of direct labor that was not recorded.  As discussed above, the Valley View Subdivision has no employees.  The minimal labor payment of $162.50 actually recorded is inadequate compensation for the labor performed.  The non-cash allowances shown on this exhibit are simply estimates provided by Mr. Jasper.  They do not appear unreasonable.

Revenues

Revenues actually billed to the customers are shown on Exhibit No. 103.  This exhibit shows the total revenues billed to each customer by month for both sewer and water service.  Included in these billings is a charge of $10 per month for sewer service.  The net water revenue of $16,504.14 is shown at the bottom of the last column.  Since meter installation charges and connections charges are treated as contributions, they are not recognized here.

These revenues do not reflect any reduction for bad debts or uncollectible accounts.  Staff is aware that the Company has turned over more than $20,000 in accounts receivable to an attorney and a collection agency.  However, since the purpose of this report is to determine reasonable rates for the future, no allowance has been included for these past claims, some of which relate to connection and meter charges.  Staff has included in its calculation of revenue requirement a 1% allowance for bad debts which is close to the average actual experience of other Idaho utility companies.

Revenue Requirement

The attached Exhibit No. 104 develops the revenue requirement for this company using the data shown on Exhibit Nos. 101 and 102.  The rate base multiplied by a 12% rate of return (range recently allowed by the Commission for small water companies) when grossed up for income taxes and recovery of expenses, produces a revenue requirement of $16,355.96.

The actual billed revenue shown on Exhibit No. 103 of $16,504.14 is practically equal to this calculated revenue requirement and indicates that the Company has not over collected a reasonable level of revenues even though individual customers may have been charged an unreasonable amount.  The section of this report titled “Rates” discusses this subject in more detail.  That section also discusses the way in which the revenue requirement should be collected through rate design.

ENGINEERING

The Valley View water system has two wells, one rated 12 gallons per minute (gpm) and the other rated 32 gpm.  It also has two storage reservoirs, one rated 120,000 gallons serves 43 customers and the other rated 2,000 gallons serves six customers.  The two wells are adequate for household use but they are not adequate for lawn watering.  The Company periodically asks customers to stop lawn watering so the two wells can refill a reservoir.  The homes in this development are mobile and modular homes with modest but nice landscaping.  To allow normal lawn watering, Staff estimates that the system should have a source of about 100 gpm.  The total platted development has 107 lots.  In Staff’s opinion, the existing well capacity is not capable of serving any additional customer growth.

In order to promote water conservation, the Company has been installing meters and currently has all but six customers metered.

The distribution system borders Highway 12 and extends uphill to an elevation of about 240 feet above the highway elevation where the 120,000 gallon reservoir is located.  See Exhibit No. 105.  This reservoir provides 55 pounds per square inch (psi) of pressure to customers at the higher elevations and 107 psi to customers at lower elevations near the highway.  The 2,000 gallon reservoir provides 70 psi to the six homes at the highest elevation in the development.  Staff considers the water pressures to be adequate but the pressure of 107 psi is a bit high.

Staff recommends the Company engage a consulting engineer:

1.To identify the proper location for pressure reducing valves to lower the pressure to customers at the lowest elevation near the highway.

2.To determine the location and necessary capacity for an additional well to allow summer lawn watering.

Valley View does not provide adequate service in terms of quantity (32 gpm for 49 customers).  Staff recommends that the Commission establish a moratorium on any new water service connections until such time as the Company provides adequate well capacity.  Any additional customers added to the already overburdened water system will make the problem worse.  The DEQ moratorium is keyed to the sewer system.

WATER RATES

The test year for estimating total water consumption was August 1995 through July 1996.  At the beginning of the test year there were 24 un-metered customers and at the end of the test year there were 7 un-metered customers.  This resulted in 263 customer-months out of 588 without meter readings.  In any particular month, the consumption for an un-metered customer was assumed to be the average consumption of the metered customers during that month.  Rates should be reviewed in September 1997 when more meter readings are available. The total test year water consumption for all 49 customers was estimated to be 3,297.9 thousands of gallons.

The current monthly water rate is a $20 basic fee plus $2.67/1000 gallons for all water used.  Applied to the test year, this rate yields annual revenue of $20,565.  Staff has determined that the test year revenue requirement is $16,356 and this amount is the basis for Staff's rate proposal.  Exhibit No. 106 shows Valley View's current rate and four alternative rates.  Each alternative rate generates the revenue requirement of $16,356 for the test year.

In recommending a water rate, Staff considered the following criteria:

1.  Because of insufficient supply (32 gpm for 49 customers), a conservation rate to discourage consumption would ordinarily be a consideration.  In this case a conservation rate is unnecessary because customers already conserve to an unusual degree.  For example, average usage in July of the test year was 8,900 gallons per customer which one can compare to a July average of about 35,000 gallons per customer of the former Mesa Water Company in Boise.

2.  To promote revenue stability, more of the revenue should be recovered by the monthly fee rather than from the commodity rate.

Staff  recommends Alternate No. 3 which is:  $18/month basic fee plus $1.75/1000 gallons for all water used.  This rate recovers about 65% of the revenue requirement from the basic fee and provides a reasonable transition of monthly cost as usage increases.

CONSUMER ISSUES

Customer Relations

Since the receipt of the initial petition in 1994, three customers filed six complaints in 1996.  The customer’s concerns include fluctuating water pressure, a strong chlorine odor to the water, and meter and line extension costs.  Complainants continue to express their concerns regarding the lack of regulation of the Company’s rates, policies and practices.

The Company must adopt the Commission’s Utility Customer Relations Rules (UCRR) and Utility Customer Information Rules (UCIR).  These rules prescribe the terms and conditions under which customers receive service.  The utility is also required to file its rate schedules, line extension policies and general service provisions for Commission approval.  Together, the rules and tariffs establish rights and responsibilities of both the Company and its customers.

Billing Format

Staff reviewed Valley View’s bill format and rate information that is currently sent to its customers and finds some changes are necessary to bring the Company into compliance.  The Company must provide a multiple balance billing format to separate the water and sewer charges on customer billings.  To comply with UCRR 201, the water portion of the bill must contain the following information:

1.Billing date.

2.Time covered by the bill.

3.Beginning and ending meter readings and if based on actual or estimated readings.

4.Due date of the bill.

5.Itemization of all charges connected with water service, both recurring and non-recurring.

6.Any amounts past due.

7.Payments or credits applied since the last bill.

8.Total amount due.

9.Address and telephone of the utility’s local office and emergency number for after regular business hours.

Interest and Delinquent Charges

The Company’s current policy regarding interest and delinquent charges is to charge a late payment fee of $5.00 per month plus 1½ percent, compounded monthly, on the unpaid balance of a customer’s past due account.  The Company has chosen to impose these charges instead of using more direct action and electing to disconnect customers for non-payment.  Staff considers this policy to be excessive and inappropriate as it appears the Company would rather collect fees than encourage its customers to become better paying customers.  The Utility Customer Relation Rules provide adequate measures for the utility to collect from its non-paying customers.

Historically, the Commission has disallowed a fixed late payment charge because utilities are allowed to disconnect services for non-payment after adequate notice pursuant to UCRR 302.  Also, according to UCRR 313, when a customer cannot pay a bill in full, the utility must offer reasonable payment arrangements on the undisputed balance.  Payment is applied to the oldest balance owing and, therefore, interest and late payment charges are unnecessary if the customer keeps the payment arrangement.  If the payment arrangement is not met, the utility may terminate service for failure to abide by terms of the agreement after satisfactory notification according to UCRR 302.

The Commission has approved a late payment charge based on unusual conditions of the water utility company’s inability to disconnect customers.  In Case No. MCG-W-90-1, the Commission approved a 1% interest fee on delinquent accounts for McGuire Estates Water Company because most of its customers were not metered and it was difficult to disconnect non-paying customers.  The Commission also approved similar interest charges on delinquent accounts for Picabo Livestock Company and Evergreen Water Company because of unusual circumstances in the inability to disconnect non-paying customers.

Staff recommends the Company’s fixed rate of $5.00 as a late payment charge on customers delinquent billings be disallowed.  The Commission historically has not allowed a fixed late payment rate for any regulated utility.  The Commission has allowed collection of interest on unpaid balances in particular circumstances.  If the Commission believes that the circumstances of the Company’s delinquent payments warrant a late payment charge, Staff would recommend a standard 1% per month (12% annual rate) interest rate be considered.

Accounts owed the utility prior to regulation should not be included on bills issued after the final order in this case.  The Company is not allowed to disconnect for non-payment of any amount owed prior to regulation.  The utility may, of course, seek collection of payments through other means.  Also, when the utility is formally regulated, the Commission’s jurisdiction and rate-setting authority will supersede the utility’s Water and Sewer Service Agreement, and future customers will no longer be required to sign this agreement as a condition of receiving water service.

Service Reconnection Charge

The Company is asking customers to pay $50.00 to reconnect services if non-payment results in disconnection of water service.  Reconnection fees assessed by other utilities under the jurisdiction of the Commission are not as onerous as that proposed by the Company.  A more reasonable fee is sufficient to recover at least a portion of the costs of performing the service and is high enough to deter customers from not paying without imposing a burden on low income customers.  Previously approved involuntary reconnection fees for other water utilities range from $10.00 to $28.00.  Unless the Company can demonstrate that its costs to reconnects service are unusually high, Staff recommends that a charge within this range be adopted.  For tariff schedule purposes a rate distinction may be made between a voluntary and involuntary disconnection.  Voluntarily disconnected customers include those customers requesting seasonal disconnection and reconnection.  A customer should not, in any instance, be charged for disconnection of service.

Required Notifications

As prescribed in UCRR 701, the utility must make available to its customers a summary of the Commission’s rules and regulations and the Company’s general service provisions.  The summary must be provided to customers at least once each year and presented to each new customer upon commencement of service.

If the utility intends to terminate a customer’s service for non-payment, the utility must give the customer prior notice.  A written notice of termination must be mailed at least seven (7) calendar days before the proposed date of termination.  At least twenty-four (24) hours before actual termination, the utility must make one more attempt to contact a customer to advise of the pending action and explain the steps to take to avoid or delay termination.  The requirements for notice before termination of service are listed in UCRR 304.  Staff will assist the Company in designing the notification forms and the information to be included.

SUMMARY

This Company is operating as a public utility as defined in Title 61, Idaho Code.  The Commission should exercise its regulatory authority over this Company and issue a Certificate of Public Convenience and Necessity.  The Legal Description of the service area should be identified as “The Valley View Subdivision located in the SW 1/4 of Section 18 and the NW 1/4 of Section 19, Township 33 North, Range 4 East of the Boise Meridian, Clearwater County, Idaho.

Initial rates for the Company authorized by the Commission should be $18 plus $1.75 per thousand gallons for all water used.

Staff recommends the Company devise a multiple balance billing format to separate the water and sewer charges on customer billings.  The bill format must include the necessary information in compliance with UCRR 201.  A copy of the rules was previously provided to the Company.

If the Company finds it necessary to charge an interest rate on late payment water accounts, Staff recommends a standard one percent (1%) per month (12% annual rate) interest rate for past due balances of thirty (30) days or more.

Staff recommends the Company adopt a reconnection fee that falls within the range of $10-$28.

Staff recommends the Company submit its General Rules and Regulations and tariff schedules for water rates, non-recurring charges, including hook-up fee, reconnection fee, and interest rate to the Commission for approval.

Staff recommends that the Commission direct the Company to engage a consulting engineer to determine needed water supply sources and locations for pressure reducing valves.

Staff further recommends that the Commission establish a moratorium on new service connections until such time the Company can demonstrate that it has an adequate water supply to serve customers.

Respectfully Submitted,

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Robert E. Smith, Auditor

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