

DECISION MEMORANDUM

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

FROM: SCOTT WOODBURY

DATE: DECEMBER 10, 2003

**RE: CASE NO. GPW-W-02-1 (Grouse Point Water)
APPLICATION TO INCREASE RATES AND TO CHANGE FROM
UNMETERED TO METERED RATES**

On December 17, 2002, Grouse Point Water Company (Grouse Point; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting authority to increase rates and to change from unmetered to metered rates. Grouse Point operates under Certificate of Public Convenience and Necessity No. 360 and provides water service to 24 residential customers in Ada County, Idaho. Current authorized rates are \$25 per month. The Company has no employees. Operation and maintenance services are performed by United Water Idaho Operations, Inc., an unregulated affiliate of the regulated company, United Water Idaho Inc.

On January 10, 2003, the Commission issued a Notice of Application in Case No. GPW-W-02-01. The Commission Staff conducted a public workshop on January 30th in Kuna, Idaho to discuss the Company's Application with customers. The Company's filing was processed pursuant to Modified Procedure, i.e., by written submission rather than by hearing. Reference Rules of Procedure, IDAPA 31.01.01.201-204. The comment deadline for customers was February 6, 2003. The comment deadline for Commission Staff was February 14, 2003. The Commission in Order No. 29195 issued February 21, 2003, suspended the Company's proposed March 1, 2003 effective date to provide the Company an opportunity to reply to Staff's adjustments and recommendations. An informal stay of proceedings followed to allow the Company and Grouse Point Homeowners Association to explore and negotiate a sale/transfer of

the water system. The Commission Staff has been informed that the parties have been unable to reach agreement. Staff has also been informed that the Company does not wish to reply to Staff Comments and recommendations.

Company Application

On December 17, 2002, Grouse Point Water Company filed an Application for an increase in rates and a change from unmetered to metered rates. Current authorized rates are \$25 per month. The metered rates proposed by the Company are as follows:

Base Charge	\$33/mo for first 12,000 gallons
	\$1.70 for each additional 1,000 gallons

The only source of revenue for Grouse Point is the sale of unmetered water to residential customers. In 2001, reported revenues totaled \$6,625. The major item the Company is requesting to recover in this case is expenses associated with the meter installations performed in February 2002. The Company anticipates that with the ability to measure individual customer consumption it will be able to collect its increased costs when irrigation canal water is not available or customers choose to use the potable water outside as a convenience. A billing rate based on metered water may also encourage conservation.

Staff Comments and Recommendations

Staff in its Comments recommends that the revenue requirement for Grouse Point Water be set at \$6,702 per year based on Company and Staff recommended changes to the 2001 test year operating expenses. Staff recommends that the monthly charge to customers be set at \$22 per month for the first 8,000 gallons plus \$.50 per 1,000 for each additional gallon.

Revenue Requirement

Staff concurs with the Company proposed transition from unmetered to metered rates. Staff based on its review and audit and proposed adjustments to the Company's 2001 test year (See attached comments) recommends an annual revenue requirement for Grouse Point Water of \$6,702. Staff recommends a 12% return on the meters that were installed by the Company. The cost of the meters was \$3,842 (adjusted by Staff to \$3,455). All other capital investment was installed prior to certification and is considered contributed property (IDAPA 31.36.01.103).

Rate Design

Staff recommends that the monthly charge to customers be set at \$22 per month for the first 8,000 gallons plus \$.50 per 1,000 for each additional gallon. The base rate will recover

the fixed costs of the system and provide sufficient volume for normal domestic cases. The variable rate provides incentive for customers to conserve water and for the Company to make system improvements. Staff recommends that the Company read meters and bill customers every two months. The combined fixed variable rate design proposed by Staff would decrease the monthly charges to the average volume customer. Customers that use more than 14,000 gallons per month will see an increase in rates. Staff recommends that the Company be directed to file a report showing actual customer usage and system improvements following a year of metered service.

Power Expense

Staff notes that the electricity expenses for Grouse Point appear extremely high relative to all other regulated water companies in Idaho on a volumetric basis. Staff calculates a total electricity cost of \$1 per 1,000 gallons for Grouse Point compared to an average total energy cost of \$0.08 to \$0.41 per 1,000 gallons for other regulated water companies based on available 2001 annual reports. The rate design proposed by Staff encourages the Company and customers to take actions that improve the performance of the system. The Grouse Point water system was designed to be a potable water system not used for outside irrigation. Customers of Grouse Point have a pressurized irrigation system that is separate from the potable water system. Staff contends that customers should be discouraged from using potable water for irrigation and that the Company should be encouraged to make system improvements to reduce the high cost of operation. While Staff is unable to determine the exact cause of the excessive electricity usage, Staff believes that it could be due to several factors. The system is designed to operate primarily off a small pump with a large backup fire pump for emergency operation. If the equipment settings are not optimized, the larger pump may be running more frequently than necessary and add excessively high costs. If customers are using more water than the little pump can provide, such as significant amounts of domestic water for irrigation, the large pump will be required to run. The large pump, because of its size, would operate inefficiently and provide water at a very high power cost. The system may also have inadequate storage requiring the pumps to run too long or to cycle too frequently. Either situation could add additional cost. Staff believes that power costs of \$1.00/1,000 gallons are unreasonable and should be reduced for ratemaking purposes to \$0.50/1,000 gallons. To this end, Staff in its calculation of revenue requirement reduced the Company's normalized annual power expense by 50% or \$1,464.

Customer Comments

Customer comments are summarized in Staff's filing. Written comments, in general, mirror customer comments at the workshop. Comments tend to fall into one of four broad categories: rates, meters, health and safety, and disagreements with the developer. One customer, representing the Grouse Point Homeowners' Association, requested that a formal hearing be held in this case. Most customers object to the Company's proposed increase. Several customers believe that the proposed increase violates a developer promise of plenty of water at a reasonable rate.

Commission Decision

Does the Commission continue to find it reasonable to process the Company's Application under Modified Procedure? Does the Commission agree in the change from unmetered to metered rates? Does the Commission agree with the rates proposed by Staff? Customer comments are summarized on pages 9 and 10 of the Staff comments. Staff proposed rates will result in a decrease to customers with average consumption. Staff notes that the Grouse Point Water System is a water system designed to provide potable water for domestic use only. Separate irrigation service is available to all customers.

Scott Woodbury

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