

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF GROUSE POINT WATER COMPANY,)	CASE NO. GPW-W-17-01
LLC FOR AUTHORITY TO INCREASE ITS)	
RATES AND CHARGES FOR WATER)	ORDER NO. 33910
SERVICE IN IDAHO)	

On February 22, 2017, Grouse Point Water applied to the Commission for authority to increase its monthly customer charge from \$22.00 per month to \$113.86 per month, increase its usage rate for customers using over 8,000 gallons/month from \$0.50 per 1,000 gallons to \$5.00 per 1,000 gallons, and add a new usage rate of \$1.83 per 1,000 gallons for all monthly consumption less than 8,000 gallons/month. The Company asked for the new rates to take effect on April 15, 2017.

On March 9, 2017, the Commission issued notice of the Application, set an intervention deadline, and suspended the proposed effective date until October 15, 2017. No person or party petitioned to intervene, though the majority of the Company's 24 customers filed written comments. Staff held a workshop in July, and the Commission convened a public hearing on September 6, 2017, attended by roughly half of the Company's customers. We now approve an increase to the Company's rates and charges, as more fully set out below.

BACKGROUND

Grouse Point is a limited liability corporation providing water service to 24 customers near Kuna, Idaho. Application at 1. The Company's existing tariff is a simple base rate with a uniform single block structure approved by the Commission in December 2003. Order No. 29402. In that case, the Commission approved an annual revenue requirement of \$6,702 per year, and a 12% return on an authorized rate base of \$3,453. Order No. 29402. In the present case, the Company requested that the Commission approve an annual revenue requirement of \$36,997, which would include a 12% return on a rate base of \$99,056.

The Company's water right allows domestic use and irrigation, but most irrigation water is obtained through the Homeowners' Association from the nearby New York Canal. Application at 46. The system includes a potable water well with a 15 horse power (HP) pump, a fire well with a 75 HP pump, and a back-up well (with non-potable water, due to high levels of uranium) with a 15 HP pump. Staff Comments at 6. The system uses a single 120 gallon bladder

tank to stabilize the system, but otherwise has no storage. Id. at 3. Also, the system is equipped with a hydrogen peroxide injection system that is used to control odor. Application at 47.

The Company claimed that during 2012 through 2015, it collected approximately 40% of the expenses needed to cover its operations and maintenance expenses. Id. at 2. Further, in 2009, the Company constructed a new well to meet drinking water standards for uranium established in 2004, which their existing well did not meet. *See* Id. at 3. (The well had met the pre-2004 standard). In sum, the Company claims its existing rates are inadequate, and must be increased to continue operating.

THE APPLICATION

The Company has proposed the following rate increases:

	Existing	Proposed
Base rate	\$22 per month	\$113.86 per month
Block 1 Consumptive Charge	\$0.50 per 1,000 gallons in excess of 8,00 gallons per month	\$1.83 per 1,000 gallons up to 8,000 gallons per month
Block 2 Consumptive Charge	N/A	\$5.00 per 1,000 gallons in excess of 8,00 gallons per month

Id. at 2. The Company based its calculations on the assessment of an averaged test year of 2012 through 2015. Id. According to the Company, it is requesting a total company revenue requirement of \$36,997. Id. The Company claimed this will allow it to recover general operation and maintenance expenses, depreciation of assets, a fair return on rate base, and expenses associated with filing the underlying application. Id.

In addition to O&M expenses, the Company stated it completed significant capital improvements in 2009 and 2013, which are part of this Application. Id. As noted, in 2009, the Company installed a new well to comply with EPA drinking water quality requirements. Id. at 3. In 2013, the Company replaced a failing well pump (the failing well pump was never in rate base). Id. The Company claimed the total project cost was \$127,441. Id. The Company requested a rate base addition of \$96,930 as the total cost of construction minus accumulated depreciation. Id. The Company calculated annual depreciation at \$4,599. Id. With the requested 12% return on rate base, this equates to \$11,632 annually.

COMMENTS

Commission Staff and the Company both filed written comments, summarized below. Many of the Company's customers filed comments and testified at the public hearing convened

by the Commission on September 6, 2017. Customers also related their concerns to Staff, who addressed their issues in Staff comments. Staff worked extensively with customers to explore and address ideas and concerns raised in comments, at the workshop, and also at the public hearing.

A. Staff Comments

After reviewing the Company's proposal, Staff recommended authorizing the Company's request for an increase with a number of adjustments. In summary, Staff concluded that the Company's current rates are not sufficient and should be increased, but recommended the following adjustments: a 2015 pro-forma test year; downward adjustments on the Company's claimed power consumption; a rate base of \$87,775; an 11% return on rate base; an annual revenue requirement of \$28,973; a modified rate design; implementation of charges and fees; and a directive to work with Staff to make changes in the Company's tariff and billing statements.

B. Company Comments

In its reply comments, the Company largely agreed with Staff's recommended modifications. However, the Company believed Staff's proposal to use 2015 as the pro-forma test year was inadequate. The Company also disagreed with Staff's calculations of the Company's power consumption and Staff's calculation of the Company's rate cases expenses.

C. Customer Comments

About half of the Company's 24 customers filed written comments, and about the same number appeared and testified at the public hearing held in early September. Overall, customers expressed concern about the percentage of the proposed increase. Customers generally recognized the economy of scale, and that any changes in the small water system could be significant. However, many of the commenting customers argued that their neighborhood was developed with the intent of adding at least 40 more homes to the development, which has not occurred. The customers argued that future development, and the expansion of customer base, should be considered by the Commission.

Numerous commenting customers compared the proposed rates with other nearby water utilities, urged the Commission to parallel the Company's proposed rates with other nearby water utilities through some sort of comparative analysis. Many customers commented on the

water quality, complaining of a bad smell and taste. Finally, there were a number of comments filed regarding the functionality of the fire system.

DISCUSSION AND FINDINGS

1. Capital Expenses

The Company listed three capital expenses in its application: a new well, a new pump, and a replacement pump totaling \$96,930. The Company did not include customer meters in its application, but this appears to have been an unintentional omission.

In 2005, the Company learned that uranium levels in its potable water and fire wells exceeded Idaho Department of Environmental Quality (IDEQ) standards for uranium. Staff Comments at 4. In 2009, the Company drilled a new, deeper, potable water well into an uncontaminated aquifer. Application at 3. Subject to IDEQ oversight, the old potable water and fire wells may be used to provide drinking water as backup wells. Staff Comments at 4. The new well and pump cost \$119,018. Id.

In 2013, the Company replaced a pump at a cost of \$8,423, though it appears that the Company did not remove the cost of the defective pump from rate base. Id. There is no dispute that the defective pump should be removed. Id. This results in the inclusion of \$74,650 in rate base for the new well and pump. Id. Of note, uranium could be removed from water using other methods, but it appears that such equipment, maintenance, and uranium waste disposal could be far more costly than the new well. Id at 4-5.

Commission Finding: We find the new well and pump expenses were prudently incurred. Due to the uranium issue, the Company had to take action, and drilling the new well was a judicious course of action. Beyond the new well and pump, the Company did not include customer meters as a capital expense. We find it reasonable to include those expenses. *See* Order No. 29402. Additionally, the Company did not exclude the retired pump that was replaced in 2013. This pump will be removed as it is not “used and useful.” Additionally, repair expenses and professional fees identified by Staff during its audit should also be included as a proper capital expense. In sum, we find that the net book value is \$85,907—a difference of \$11,023. The corrected depreciation expense is \$3,572—an adjustment of \$1,027.

2. Pro-Forma Test Year

The Company proposed a pro-forma test year equal to a four-year average of expenses from 2012 through 2015. As such, the Company estimated a revenue requirement of

\$36,997. The Company also proposed computing consumption using the average consumption for the same years—2,488,000 gallons. *See* application at 2.

Staff disagreed with the Company's proposed averaging, and instead recommended using 2015 as the Company's base year was more accurate for costs, revenues, and consumption. Staff Comments at 3. After its review and audit of the Company, Staff noted that 2013 was a poor year for averaging because canal irrigation was curtailed that summer causing high system demand to account for lawn watering. *Id.* at 3-4. This was an extraordinary event, and would overstate consumption and power use. Further, in 2012-2014, Staff found documentation was missing, and the Company had incorrectly classified a number of expenses, in the incorrect cataloguing of capital expenditures. *Id.* Considering the missing documentation, extraordinary consumption in 2013, and misclassification of capital expenditures, Staff determined that a pro-forma test year of 2015 was more accurate than the Company's proposal. *Id.*

Additionally, Staff recommended several adjustments to a 2015 pro-forma test year. First, Staff noted that consumption at a single residence was markedly higher than all other customers during the summer months. As such, Staff adjusted consumption to include only average consumption for that customer, resulting in a pro-forma consumption of 1,945,000 gallons. Staff also determined that the Company would need 1.67 barrels of hydrogen peroxide for water treatment, at an annual cost of \$1,103. *Id.* 4. As discussed below, Staff also recommended an adjustment to the Company's power costs using current Idaho Power Company Schedule 9 rates. *Id.*

Commission Finding: Considering the lack of evidence supporting expenditures in 2012-2014, and the abnormally high consumption in 2013 due to the curtailment of canal irrigation, we find that a pro-forma test year of 2015 is the most accurate forecast of future costs, revenues, and consumption. Further, we find it appropriate to adjust the pro-forma year to adjust for the system's single abnormally high user. Additionally, we find it proper to include an annual cost of \$1,103 for hydrogen peroxide. We also find it appropriate to apply Idaho Power's Schedule 9 rates to the estimated 1,945,000 gallons of use during the adjusted test year, which includes demand, basic load capacity, and energy charges required for periodic fire pump testing and maintenance.

3. Power Consumption

The Company claimed its annual power costs averaged \$4,206 from 2012 and 2015. Application at 47. The Company stated this was because the system's main well pump runs almost continuously to maintain system pressure, regardless of demand. Outside of a single 120 gallon pressure tank, the water system has no reservoirs, storage tanks, or booster pumps to maintain pressure when there is no demand. As a result, the main well pump runs almost constantly. *See* Staff Comments at 8. Over the proposed test period, costs have averaged \$1.83 per 1,000 gallons of water. *Id.* at 7.

Staff estimated that approximately 90% of the electrical energy consumed is to maintain system pressure when there is little or no demand for water. *Id.* at 8. For context, Staff reported that the company with the next highest pumping costs has costs of \$0.64 per 1,000 gallons, and that most small water companies in Idaho spend between \$0.20 and \$0.30 per 1,000 gallons. *Id.* In addition to the constant operation of the main pump, Staff determined that the Company's outsized power costs come from rate and demand charges outside the Company's control, and pointedly, a system configuration that fails to take advantage of the energy savings with the variable frequency drive. *Id.* Staff believes that the variable drive was not properly operating, and argued that the Company's pressure tank is incorrectly pressurized, there is a leak in the system, or the pump's limit switches are incorrectly configured. *Id.* at 8-10. Other than the 120 gallon pressure bladder, the system had no storage capacity. In 2013, the Company replaced a 165 gallon pressure bladder with the current 120 gallon pressure bladder. *Id.* at 8. The new tank's empty pressure is 65 pounds per square inch (psi), which is the same as the main pump's upper limit.

Staff recommended using the Company's 2012 power usage figures, and adjusted accordingly. In sum, Staff recommended allowing the Company to recover \$1,960 in energy and related costs, as well as \$420 in fire pump related demand and load capacity charges, totaling \$2,380 in annual power costs. *Id.* at 10.

Commission Finding: We acknowledge that there is little the Company can do to avoid some power expenses due to the Company's rate structure, including demand charges related to the testing and maintenance of the fire pump. However, there is no dispute there are modest enhancements the Company could implement that could significantly improve power consumption and take advantage of the system's variable frequency drive. As it is, the system

pump runs constantly to keep system pressure, making the variable frequency drive inoperable. We are especially concerned with the Company's nonworking master meter, which is the starting point to evaluate if the system is properly operating, has a leak, or is experiencing some other malfunction. This should be repaired or replaced.

Additionally, because of the pump's limit switches, it appears that the 120 gallon pressure bladder may not be operating properly, or at all. According to Staff, the pressure tank and the pumps' limit switches appear to be set in a way that requires constant pump operation to maintain system pressure. The Company admits the tank and pump pressure switches have not been inspected since their installation in 2013—the same year the Company's power consumption increased to current levels. Further, it appears the Company has not closed the main valve to the uranium contaminated well, making it possible the new pump is leaking water into the old well, which could also cause continuous pump operation.

Replacement of the master meter, testing of the system's pressure bladder, professional evaluation and a more standard configuration of the pump's limit switches, and closure of the contaminated well's main valve are simple and inexpensive procedures that could cause the power consumption to drop significantly through use of the variable frequency drive when there is low or no demand (i.e., overnight). Furthermore, the record supports that the Company could save by adding a second system pressure tank or increasing its size, with all the improvements coming at a price of less than \$1,500 – less than half what the Company claims it spends in power costs.

In the Company's previous rate case, we allowed \$0.50 per 1,000 gallons in power costs. We now authorize an increase to \$1.22 per 1,000 gallons, and reject the Company's requested \$1.83 per 1,000 gallons. Using 2012 numbers as a basis for usage is reasonable, considering that the pump usage during that time appears to have been far more efficient, possibly due to the larger operating pressure bladder. While we understand the Company's numbers accurately reflect its power costs, we also believe the Company can decrease its energy usage by making a number of inexpensive efficiency changes to the benefit of the Company and its customers.

Going forward, the Company should work closely with Staff to make these improvements. Our aim is to make the Company whole on power expenses, but to encourage it to operate efficiently. Excessive power supply costs due to a non-functioning pressure tank, an

incorrectly open well valve, or improperly configured limit switches should not be borne by ratepayers. Further, expenditures made to improve efficiency should be capitalized and included in rates in the Company's next rate case.

4. Fire well

The Company's system includes a fire well designed to start pumping when system pressure drops below 30 psi. Staff Comments at 5-6. The fire well pump draws water from the aquifer with non-potable uranium levels. Id. Normally, the system operates under 30 psi with the potable water well, and the fire pump is not activated outside of testing. Id. However, in 2013, when the subdivision's canal water was curtailed, the fire pump was activated 336 times at significant cost. Id. at 6. Since then, the fire pump has only been activated an average of four times per year. Id.

System customers expressed concerns about the fire system's reliability. Staff reported that the Company periodically tests operation of the fire pump, but does not perform routine tests of fire hydrants or the limit switches that activate the fire pump. Staff's investigation revealed that Whitney Fire District services the neighborhood and inspects and services the hydrants but does not perform a flow test. Id. at 7. The Boise City Fire Department can provide flow testing for an annual fee of \$500. Staff thus recommended that the hydrants be tested annually, and that the Commission approve a \$500 annual expense for flow testing. Id.

The Company agreed with this recommendation, but argued that \$500 was insufficient to offset the actual expenses for annual testing. Company Reply at 2. The Company argued it would incur a demand charge of \$480 from Idaho Power, and a \$260 charge to have its contract operator observe and participate. Thus, the Company requested \$1,240 for the annual flow testing. Id.

Commission Finding: As fire protection is a major component of water service, we find that flow testing of the hydrants is a prudent expense. We agree that \$500 to perform flow testing should be included in base rates. We find that the demand charge from Idaho Power incurred for such testing is included in the Company's power consumption costs, reflected above. Likewise, the \$260 operator charge is included in the adjusted O&M expenses in the approved test year. Finally, in order to minimize uranium contamination and any other concomitant effects, the Company should coordinate the annual flow testing with its pump tests, and notify customers well in advance of such testing.

5. Water quality

The Commission received several comments regarding water odor and taste issues. These issues are attributed to the zone that the new potable water well is drawing from which contains elevated hydrogen sulfide levels and a strong unpleasant sulfur smell. Notably, IDEQ found no health risk attributable to the smell. The Company initially treated the water with chlorine. However, this produced an objectionable chlorine taste in the water. Staff Comments at 5.

As a result, the Company installed a hydrogen peroxide treatment system. In large part, the hydrogen peroxide treatment has been a satisfactory solution to the system's odor problems. While it is not *per se* necessary, Staff believes this treatment system benefits customers and that it should be operated and maintained. Staff estimated the annual cost of operating this system to be \$1,103. This is \$213 less than the annual expense computed using the Company's four-year average test year methodology. *Id.*

Commission Finding: We find \$1,103 for water treatment expenses to be appropriate. The Company is allowed to recover this amount as operating expenses of its water treatment system to remove hydrogen sulfide from the water. While we recognize that the IDEQ does not consider the water smell and taste to be a health risk, the number of customers commenting on the bad taste and smell without treatment indicates it is reasonable to continue treatment as it benefits customers' overall water quality.

6. Rate Case Expenses

The Company requested rate case expenses of \$25,944, with a seven-year amortization. This results in an annual expense of \$3,706.

Staff believes the Company's claimed expenses included routine accounting expenses and an undocumented estimated amount of \$17,000. Staff also noted that the Company claimed a large amount of rate case expenses that should be attributed years outside the Company's proposed five-year period. Staff suggested instead that the Commission allow \$800 in annual rate case expenses over five years. Staff reasoned that Spirit Lake East, a water company with about 300 customers, was authorized a five year amortization period with annual rate case expenses of \$800. Staff thus recommends a downward adjustment of \$2,906 in this case. Staff Comments at 15.

The Company agreed with Staff's adjustment excluding routine accounting expenses. The Company acknowledged its rate case expenses for 2017 were estimates, but argued the estimates have proven to be even higher than projected. The Company attributed this to the extensive production and audit requests made by Staff. The Company also took issue with Staff comparing the expenses of a utility that the Company asserted was dissimilar. The Company requested full recovery of expenditures associated with the rate case through August 31, 2017—\$30,228 amortized over seven years. This results in an annual expense of approximately \$4,318. Company Reply at 4.

Commission Finding: We find it appropriate for a Company to recover prudent and reasonable costs from litigating a rate case. However such costs should not be included in rate base for the Company to earn a return, but are recoverable in rates, amortized over a number of years. The Comparison of rate case expenses of the other utility is not definitive, but it is instructive—a utility over 10 times larger can process a case for a fraction of the cost. In this case, we find that the expenses the Company incurred in 2015 (\$1,647) and 2016 (\$7,297) are a reasonable approximation of Company incurred rate case expenses. The Company's claimed the 2017 expenses are projections without verification; we will not factor that into what will be allowed for recovery. In sum, we find it reasonable to allow \$8,944, amortized over five years, or \$1,788.80 annually.

7. Rate base and return equity

The Company requested a rate base totaling \$99,056, and a 12% return on equity.

As shown above, Staff calculated a rate base of \$87,775 after adjustments. Staff's rate base adjustment accounted for changes to plant-in service and a corresponding adjustment in accumulated depreciation. Staff also recommended an 11% rate of return. Staff reasoned that 11% reflects current market conditions and is consistent with the return authorized to similar utilities. Staff Comments at 15; *See* also Order No. 33658.

The Company agreed with the proposed 11% return on equity. Company Reply at 1

Commission Finding: We approve the agreed upon 11% return on equity. The amount reflects a fair return in line with similar utilities. We note that this is the same as the overall rate of return because the Company has no authorized debt.

8. Rate design

Both Company and Staff agreed to an inclining block rate structure. In its Application, the Company requested a two tier rate structure, separated at use over 8,000 gallons. Staff agreed with the rate design, as the inclining block will provide an incentive to customers to reduce consumption. Staff Comments at 15-16, Company Reply at 1. However, Staff felt that the proposed two tier block would continue to collect too much through base customer charges and not through volumetric usage charges. Id. Thus, Staff recommended that the Commission implement a three tier block rate structure, as follows:

The Company disagreed with Staff's proposed customer charge of \$82, claiming it would be insufficient to collect the Company's actual fixed expenditures. Company Reply at 1. This position was based on different parties' proposals relating to the proposed pro-forma test year, calculation of power costs, and rate case expenses, addressed above. Otherwise, the Company agreed with the proposed three tier block rate proposed by Staff. Id.

Commission Finding: We approve Staff's proposed three-tier inclining block rate structure, as described above. This rate structure provides customers a significant incentive to efficiently manage usage as compared to the Company's current rate structure. Put another way, shifting cost recovery to this usage-based model will increase bills for high-use water customers relative to low-use customers. We note that the rate structure is based on a revenue requirement of \$29,961, after Commission adjustments. While the Company argued the base customer charge is insufficient to recover actual expenditures, we find the rate design adequate to recover the approved revenue requirement and allow for the approved 11% return on equity, when based on the appropriate test year, power consumption, and other adjustments, as well as the opportunity to greatly improve power consumption at a low cost.

Description of Charge	Applies to:	Current rate:	Commission Approved:
Customer Charge	Per month	\$22	\$86
First tier usage rate (\$/1,000 gallons)	First 8,000 gallons	No charge	\$2.50
Second tier usage rate (\$/1,000 gallons)	Next 12,000 gallons	\$0.50 (current second tier applies to all usage over 8,000 gallons)	\$3.75
Third tier usage rate (\$/1,000 gallons)	Over 20,000 gallons	\$0.50 (current second tier applies to all usage over 8,000 gallons)	\$5.00

We recognize that as the new rates are implemented, revenue may fall short of what has been authorized due to the reduced consumption. Likewise, in the future, the Company may need to request additional rate relief should customer consumption fall precipitously in response to the new inclining block rates. Accordingly, the Company is strongly encouraged to work with Staff and approach the Commission with proper documentation supporting any such shortfall.

9. Consumer relations

In addition to the rate increase and design changes requested by the Company, Staff also evaluated Company operations and made a number of recommendations for improvement. Specifically, Staff recommended that the Company implement a reconnection charge, a late payment charge, and a returned payment charge. Further, Staff recommended that the Company work with Staff to revise its tariffs and policies to comply with the Utility Customer Relations Rules.

Commission Finding: Based on our review, we find the implementation of a reconnection charge, a late-payment charge, and a returned payment charge are appropriate. These charges would only be implemented when customers fail to pay or fail to timely pay their water bill. Further, we find that Company operation should be improved to better reflect and comply with the Utility Customer Relations Rules, IDAPA 31.21.020 (“UCRR”). Accordingly, we direct the Company to work with Staff to develop and file tariff sheets reflecting these charges, in compliance with the UCRR.

With regard to potentially new system customers, we are cognizant that, because of the system’s small size, the addition or removal of even a single new customer would greatly affect the spread of rates among others. Thus, the Company is directed to work closely with Staff to develop a strategy to avoid over or under earning as a result of growth or attrition of its customer base. We appreciate the Company’s attention to this issue, and expect that if such a situation arises, the Company would take action to account for the new customers in a reasonably expedient manner.

Staff should work with the Company to revise the billing statement and tariff sheets to ensure compliance with the UCRR. In addition, Staff will assist the Company with the development of a disconnection policy addressing the required notices and documentation described in the UCRR. The Commission directs the Company to work with Staff to develop an

appropriate billing statement, tariffs, customer notices, and other procedures to comply with Commission rules.

ORDER

IT IS HEREBY ORDERED that the Company's Application to increase its rates and charges is approved, as more fully described above, effective October 13, 2017.

IT IS FURTHER ORDERED that the Company work with Staff and file tariff sheets reflecting this Order within 30 days of the service date of this Order.

IT IS FURTHER ORDERED that the Company shall adopt and implement the Commission's Utility Customer Relations Rules (IDAPA 31.21.01, *et seq.*).

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 13th day of October 2017.



PAUL KJELLANDER, PRESIDENT




KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Diane Hanian
Commission Secretary

F:\Legal\LORDERS\GPWW1701_bkdh (FinalOrder).doc