



regarding three matters: 1) number and type of customers, 2) rate design, and 3) hook-up (connection) fees.

## **NUMBER OF CUSTOMERS**

Staff initially used a total of 46 customers in establishing future rates -- 44 residential connections, and 2 commercial connections. This information was provided by the Company on August 12, 2008. New data and information provided by the Company in response to Staff's Second Production Request includes the following:

- Number of residential and commercial customers currently connected and billed – 46 (44 residential and 2 commercial)
- Number of residential and commercial customers currently connected with shut-off valves closed and not currently being billed – 21 (21 residential and no commercial)
- Number of water service connections serving common area – 1 (well lot)

Of the 21 residential customers connected to the system and not being billed, the Company reported that 16 are homes being built under the Eastern Idaho Community Action Partnership (EICAP) program. This number was updated to 18 homes after Staff contacted Ron Holt of EICAP in Idaho Falls to gain additional information about the EICAP homes being built in Pepperwood Crossing Subdivision.

Eight EICAP houses have been completed, are occupied and are actively being billed (these homes were included in Staff's previous analysis). The homes not contemplated in Staff's previous comments include the following: nine houses in advanced stages of construction and expected to be finished and occupied by January 2009; five houses with a completed foundation and some flooring/framing started; and another four with concrete foundation work started. The latter nine houses (5+4) will take approximately 1 year to complete. All 18 houses are already sold to homeowners. Mr. Holt explained that it takes longer to finish a house under this program since the applicants (owners) are expected to provide 65% of the labor in constructing the house (with the exception of plumbing, heating and electrical systems, and concrete work) instead of using sub-contractors. There are also seven speculative homes currently being built and for sale. These speculative homes built by independent builders/realty development companies are either completed or nearing completion. One out of the seven spec homes has been sold and will be

occupied soon, and another spec home that was recently completed has tenants renting pending loan approval for its purchase.

In addition to the two commercial customers previously considered, another tenant will soon occupy a commercial building. This commercial building, designed to accommodate three tenants, is located in a single commercial lot. The Company intends to bill commercial tenants separately even though there is a single customer service line connected to the commercial building. Staff does not oppose billing the individual commercial customers.

The well lot is utilizing a pressurized sprinkler system tapping the mainline at the pump control house. Staff did not include this in its commercial customer count. Water used for lawn irrigation on the well lot is part of the cost of operating and maintaining the public water system.

In view of the new information provided by the Company, Staff proposes that the following data be used in estimating the Company's future revenue requirements:

- Total number of residential customers - 64 (44 + 18 + 2)
- Total number of commercial customers - 3
- Total number of customers - 67

The residential customer total includes 44 customers already connected to the system and currently being billed, 18 EICAP homes, one residential speculative home recently sold, and another home pending sale. Staff believes that it is reasonable to include the 18 EICAP homes since they are already sold to homeowners and are expected to be occupied between January 2009 and September 2009. The three commercial customers include two that are already connected and being billed and a new tenant with an approved lease who is expected to occupy the building soon.

## **RATE DESIGN**

Staff recalculated the monthly flat rates for residential and commercial customers based on 67 customers (64 residential + 3 commercial) and using the previous Staff-adjusted annual revenue requirement of \$26,679. The revised flat monthly rate for residential and commercial customers amounts to \$33.25. Staff recommends that this revised rate be implemented for Rocky Mountain Utility. A comparison of the current rate, the Company's proposed rates and Staff's rate proposal is shown in Attachment A.

## **HOOK-UP FEES**

As part of the Company's Application for CPCN, Rocky Mountain did not initially request a hook-up fee to be collected. In response to Staff Production Request No. 16, the Company asked for a \$250 hook-up fee. As part of Staff Comments submitted to the Commission on September 12, 2008, Staff recommended a hook-up fee of \$150 per customer connection. During the Commission's public hearing on September 23, 2008, several Rocky Mountain customers testified that the builders and/or homeowners were charged \$1,500 for a hook-up / connection fee.

According to the Company, the total hook-up fee collected per customer was for combined sewer and water charges. The Company did not further explain the allocation between the sewer and water charges. In addition, the Company did not elaborate as to the specific purpose of the hook-up fee. It appears that when a builder or customer bought a lot from the Company's affiliate Landmark Development, a hook-up fee of \$1,500 was charged. It was paid separately after the lot sale was consummated and the house plan was approved by the Landmark Development Building and Architectural Committee to ensure compliance with the Subdivision's Covenants and Restrictions. In some cases, the \$1,500 hook-up fee was embedded as part of the lot transaction cost at closing.

For purposes of this case, Staff has defined the hook-up fee as a non-recurring charge for new customers which is limited to recovery of the total costs of Company time, labor and equipment involved in locating and turning on the shut-off valve. It does not include a distribution line extension, meter box, setter, or meter.

Generally, the cost of building a small domestic public water system is considered by Staff to be contributed capital. In this case, Staff assumes the cost of the water system is recovered through the sale of lots. Indeed, the "hook-up" fee was paid by homeowners either as part of the cost of the lot (for those who paid the fees as part of lot sale closing) or as part of the cost of building a residential home (for those who paid separately). Although termed as a "hook-up" fee by the developer, it was merely a way to recover some of the capital expenditures of the water and sewer systems through the sale of lots/purchase of homes. Unfortunately, the developer used a regulatory term-of-art which subjected the fee to scrutiny.

As previously stated, for purposes of this case, Staff defines "hook-up" fee as a non-recurring charge for new customers which is limited to recovery of the total costs of Company time, labor and equipment involved in locating and turning on the shut-off valve. Therefore, Staff

recommends that any hook-up fee, as defined by Staff, become effective simultaneously with the Company's tariffs as a non-recurring charge. Staff further recommends that any \$150 hook-up fee associated with customers already receiving service be deemed waived as they are already receiving water.

Staff also recommends that Landmark Development properties, an affiliate of Rocky Mountain Utility, not use the "hook-up" fee terminology for future lot sales. This has proven to cause confusion with the water customers.

## RECOMMENDATIONS

Based on the foregoing, Staff recommends:

1. That the Commission approve a flat rate of \$33.25 per month for residential and commercial customers.
2. That the Commission approve a \$150 hook-up fee, as defined by Staff, to become effective simultaneously with the Company's tariffs as a non-recurring charge.
3. That the Commission direct the Company to waive any \$150 hook-up fee associated with customers already receiving water service.
4. That the Commission direct the Company to work with Landmark Development Company, an affiliate of Rocky Mountain Utility, to cease the use of "hook-up" fee terminology for future lot sales.

Respectfully submitted this 13<sup>th</sup> day of November 2008.

  
\_\_\_\_\_  
Kristine A. Sasser  
Deputy Attorney General

Technical Staff: Gerry D. Galinato  
Chris Hecht

i:/umisc/comments/rocw08.1ksggch supp comments

<b>Rate Analysis</b>						
<b>Rocky Mountain</b>						
<b>ROC-W-08-01</b>						
<b>Annual Revenue Requirement =</b>			<b>\$ 26,679</b>			
			<b>Revenue</b>		<b>Average</b>	
		<b>Monthly</b>	<b>Total</b>	<b>Over or</b>	<b>Total</b>	<b>Percent</b>
<b>Rate</b>	<b>No. of</b>	<b>Flat Rate</b>	<b>Revenue</b>	<b>Under</b>	<b>Increase</b>	<b>Increase</b>
<b>Design</b>	<b>Customers</b>	<b>(\$/mo)</b>	<b>(\$/yr)</b>	<b>(\$/yr)</b>	<b>(\$/yr)</b>	<b>(%)</b>
<b>Current Tariff:</b>						
Residential	64	\$ 28.50	\$ 21,888			
Commercial	3	\$ 28.50	\$ 1,026			
<b>Total</b>	<b>67</b>		<b>\$ 22,914</b>	<b>\$ (3,765)</b>		
<b>Company Proposal</b>						
Residential	64	\$ 42.00	\$ 32,256			
Commercial	3	\$ 42.00	\$ 1,512			
<b>Total</b>	<b>67</b>		<b>\$ 33,768</b>	<b>\$ 7,089</b>	<b>\$ 10,854</b>	<b>47.4%</b>
<b>Staff Proposal</b>						
Residential	64	\$ 33.25	\$ 25,536			
Commercial	3	\$ 33.25	\$ 1,197			
<b>Total</b>	<b>67</b>		<b>\$ 26,733</b>	<b>\$ 54</b>	<b>\$ 3,819</b>	<b>16.7%</b>
% Alloc-Res =	95.5%					
% Alloc-Com =	4.5%					
%Total Alloc =	100.0%					

ATTACHMENT A

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 13<sup>TH</sup> DAY OF NOVEMBER 2008, SERVED THE FOREGOING **SUPPLEMENTAL STAFF COMMENTS**, IN CASE NO. ROC-W-08-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

SHERI POULSEN  
JENSEN POULSEN & COMPANY PLLC  
PO BOX 50225  
IDAHO FALLS ID 83405

JIM BERNARD  
OWNER/ MANAGER  
ROCKY MOUNTAIN UTILITY CO. INC.  
3894 EAST 200 NORTH  
RIGBY ID 83442

  
\_\_\_\_\_  
SECRETARY