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UTILITIES COMMISSION

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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)
SPIRIT LAKE EAST WATER COMPANY) CASE NO. SPL-W-04-1
REQUESTING AUTHORITY TO INCREASE ITS)
HOOK-UP FEES FOR WATER SERVICE)
)
) COMMENTS OF THE
) COMMISSION STAFF
)
_____)

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, John R. Hammond, Deputy Attorney General, in response to Order No. 29451, the Notice of Application and Notice of Modified Procedure in Case No. SPL-W-04-1 issued on March 22, 2004, submits the following comments.

BACKGROUND

On January 14, 2004, Spirit Lake East Water Company (Company) filed an Application requesting that the Commission authorize an increase in the hook-up fee charged new customers connecting to its water system from \$650 to \$2,500. The Company's current hook-up fee of \$650 has not changed since initially approved in November 1983 by Order No. 18466. The Company serves approximately 240 customers in two large lot subdivisions located near the community of Spirit Lake, Kootenai County, Idaho. Certificate No. 293 was issued to the Company by Order No.

17892 in February 1983. There are no registered complaints against the Company in the last three years.

THE APPLICATION

The Company states that the requested hook-up fee increase from \$650 to \$2,500 is to cover increased contract costs that have occurred in the last couple of years. The Company provided in its Application and in response to subsequent production requests, direct contract costs of up to \$2,500 that it incurred for the installation of new water services. In addition to direct contract costs, the Company also identified labor and travel expenses incurred for the installation of new services and meters. The reasons given for the high contracting and labor expense were the limited number of contractors available in the area and the highly qualified contractor hired to do the work.

Hook-up costs are also high because new services often require installing a complete service from the main to the property line. The developments served have lots that often exceed 10 acres with building sites undefined. Service lines were either not installed with the development or are inadequately located for the needs of today's builder, some 20 years later.

STAFF REVIEW

While the letter contained in the Company's Application requested increasing hook-up fees to \$2,500, Exhibit A of its Application actually calculates an increase of \$2,500 above the current \$650 hook-up fee. On that basis, the new hook-up fee would total \$3,150 (\$2,500 plus \$650). The Exhibit lists 2002 and 2003 contractor costs for new hook-ups and then reduces the total cost by subtracting hook-up fees paid by new customers in those years. To identify the total actual cost of new hook-ups, the current hook-up fees paid should not have been subtracted. As a result, costs provided by the Company and reviewed by Staff actually averaged \$3,150 per hook-up. In addition to the average contractor costs of \$1,854 (\$53,760 divided by 29 hook-ups), hook-up charges shown in Company Exhibit A also included allocated labor/vehicle, administrative, and a 20% contingency to reflect expected increases in future costs per hook-up.

In 2002, Staff completed an audit of the Company for 2001. The average contract costs for hook-ups in 2001 was just over \$1,000 (see Attachment A). This average cost is significantly lower than the over \$1,800 average hook-up cost identified on Company Exhibit A. In addition,

accounting/administrative costs allocated from Hanson Industries, Inc.¹ to the Company in 2001 were \$3,600 and labor costs allocated to the Company in 2001 were approximately \$6,000. These costs represented labor and accounting/administrative costs for *all* Company operations including Company hook-ups. According to Staff's review of the Company's 2002 and 2003 annual reports, the operation and maintenance labor and accounting/administrative costs allocated to the Company's operations as a whole are approximately the same as those costs in 2001. The Company, in Exhibit A, allocated an average of approximately \$6,000 (\$5,200 plus \$6,760, divided by 2) to administrative hook-up costs and over \$6,500 (\$5,908 plus \$7,260, divided by 2) to labor/vehicle hook-ups costs. These amounts are actually greater than the operation and maintenance labor and accounting/administrative costs recorded each year by the Company for all utility operations in 2001, 2002 and 2003.

Given the audit and annual report information, it appeared that the increase requested by the Company in its Application was not justified. The water hook-up fee requested was also among the highest on record with the Commission (See Attachment B). Staff prepared two production requests and evaluated the Company's responses which provided most invoices for the installation of new service lines from an independent contractor. However, the Company did not provide time cards to verify the level of Company supplied labor used in developing the proposed hook-up fee. Through telephone conversations, Staff and the Company were able to agree on an appropriate level of Company provided labor necessary to complete each hook-up. In response to Production Request No. 26, the Company provided a revised estimate of Company provided labor at \$135.07 per hook-up and dropped its request for vehicle reimbursement and a 20% contingency (See Attachment C). Staff believes this estimate is more reasonable than the \$866 (the sum of \$5,908, \$7,260, \$5,200, \$6,760 divided by 29 hook-ups) labor and \$414 contingency costs per hook-up included in the Company's Application.

In addition to the employee labor and 20% contingency, Staff questioned costs incurred for the installation contract. Because the Company indicated that there were few available contractors, Staff reviewed the listed Public Works Contractors licensed in water works or utility installations. Staff found several contractors listed in the area licensed to perform similar work. Staff requested informal quotes from a number of licensed contractors for the installation of a water service

¹ Hanson Industries, Inc. is majority (75%) owner of the water company. Hanson Industries, Inc. personnel perform the operation, maintenance, administrative, and accounting duties for the water company. Each year costs for these functions are transferred from Hanson Industries, Inc. to the water company.

including 50-feet of 1" service line, hot tap a 6" mainline, install meter tub, setter and meter and gravel road repair. The quotes received ranged from \$600 - \$1,000. Staff contacted Mr. Boyle, Vice President of Hanson Industries, Inc., and notified him of the information. Mr. Boyle contacted Foster's Excavation (Foster's) of Hayden, Idaho, one of the contractors previously contacted by Staff and contracted with Foster's to perform a hook-up that was pending. Spirit Lake East Water Company indicated that if Foster's Excavation works out, the Company would contract with them for the remaining hook-ups. Staff had hoped that a fixed priced contract would be in place at the time of comment filing. Unfortunately, the Company and Foster's are still negotiating. Staff is continuing to monitor the situation.

Staff further questioned whether the Company's own labor force could perform a simple meter installation. The Company indicated that for liability reasons a contract installation was preferred. The new meter installation includes the installation and testing of the new meter and existing service line. Should a leak or other problem occur, the contractor is on-site and readily available to make any needed repairs. The Company employee would not have sufficient equipment on hand to make the multitude of possible repairs that could be required when installing a new meter on a service that has sat idle for over 20 years.

Staff also inquired through production request the exact number of hook-ups that remain on the system. On March 31, 2004, the Company inventoried the remaining unmetered/unserved properties on the system and found that there are 90 additional hook-ups possible. Eleven of the remaining hook-ups are anticipated to be new meter installations and the remaining 79 are expected to be new service connections (See Response to Production Request No. 19 and Company Exhibit 1 thereto).

OPTIONS

The Spirit Lake East Water System has two possible hook-up types, the simple installation of a meter on an existing service line and the installation of a new service connection from the main. The cost to perform the two different types of hook-ups varies from a meter installation estimated at \$300 to a full service installation at approximately \$1200. Staff believes there is merit for two separate hook-up fees depending on the type of hook-up required. The Company has inventoried its system and can determine the type of service required to each lot. However, for ease of billing and stabilization of rates Staff believes an average hook-up fee for all types of service installations is most appropriate. Even though this alternative will penalize some customers to subsidize others,

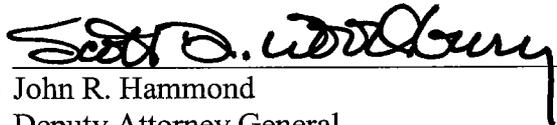
Staff recommends a hook-up fee based on the weighted average cost of installation including \$135 for Company supplied labor and the contract costs for the 79 new service and 11 meter installations. Based on previous discussions with the contractor, Staff estimates that the average cost would not exceed \$1,200.

STAFF RECOMMENDATION

Staff recommends that the Commission hold its decision until the Company can complete negotiations with the new contractor and a firm fixed contract price for the installation of water services is established. Staff further recommends that a weighted average hook-up fee be calculated based on a new fixed priced contract and a fixed contribution to Company supplied labor of \$135. Staff anticipates that the hook-up fee should not exceed \$1,200 including contract costs and Company labor costs.

Respectfully submitted this

30th day of April 2004.


for John R. Hammond
Deputy Attorney General

Technical Staff: Patricia Harms
Michael Fuss

JH:i:umisc/comments/splw04.1jhphmfuss

Case No. SPL-W-04-01
2001 Water Hook Ups
Average Cost per Installation

Installations:

<u>Invoice #</u>	<u>Date</u>	<u>Lot #</u>	<u>Amount</u>
440	6/6/2001	SLE 275	\$1,578
423	1/29/2001	SLE 285	280
412	12/11/2000	TP 1-15	1,190 invoice dated 2000 although paid in 2001
105	9/4/2001	TP 3-4	320
108	9/4/2001	SLE 134	1,685
107	9/4/2001	SLE 223	1,685
92	8/17/2001	SLE 221	320

Total Installation Costs for 2001 per Invoices \$7,058

Total Number of Installs per Invoices=> 7

Average Cost per Installation in 2001 (\$7,058 divided by 7) or \$1,008

Plus Non-Installation Costs:

Cost of Locates:

<u>Invoice #</u>	<u>Date</u>	<u>Amount</u>
125	10/2/2001	55
124	10/2/2001	55
102	9/4/2001	55
103	9/4/2001	55
104	9/4/2001	55
		275

Cost of Main Valve Replacement (Invoice #109 Dated 9/4/2001) 624

Cost to Repair Damage to Meter (Invoice #110 Dated 9/4/2001) 1,500

Customer Payment to Repair Damage to Meter -1,500

Cost to Repair Roadway - Amount was Deducted from Prior Contractor
(Invoice #93 dated 8/17/2001) 370

Total of Contractor Invoices \$8,327

Supplies: Pump 370
Wrench 33

Company Annual Report Amount for
Materials & Supplies - Operation and Maintenance \$8,730

Idaho Public Utility Commission
Summary of Water Utility Rates
 April 12, 2004

Mo. Residential Rates ¹ (unless otherwise noted)									
NO.	Name of Utility	No. of Customers	Hook-up Fee	Monthly Base Rate	Gal's in Base Rate 0 to	Block 2 Rate Per 1000 gal	Block 2 Gallons >	Last Rev. Date	Ave Cost for 30,000 Gal
1	Algoma Water Co.	27		\$ 17.59	Unmetered			5/6/2002	\$ 17.59
2	Aspen Creek Water Co.		\$1,000	\$ 25.00	15,000	\$ 1.00	15,000	9/25/2002	\$ 40.00
3	Bar Circle "S" Water Inc.	145	\$ 250.00	\$ 15.00	7,500	\$ 0.95	7,500	2/1/1990	\$ 36.38
4	Bitterroot Water Co.	101	\$ 750.00	\$ 20.00	15,000	\$ 0.75	15,000	8/12/1999	\$ 31.25
5	Brian Water Co.	47		\$ 10.50	4,000	\$ 1.08	4,000	5/1/1999	\$ 38.58
6	Capitol Water Corp. (3-Blocks Included)	2,776		\$ 21.00	7,480	\$ 0.61	7,480	1/1/2004	\$ 32.48
7	Country Club	125	\$ 300.00	\$ 14.00	30,000	\$ 0.35	30,000	2/23/1990	\$ 14.00
8	Diamond Bar Estates	45		\$ 21.00	7,500	\$ 0.45	7,500	6/1/2003	\$ 31.13
9	Eagle Water	2,600	\$ 845.00	\$ 7.84	4,488	\$ 0.45	4,488	3/25/1987	\$ 19.35
10	Evergreen Water Co.	34	\$ 600.00	\$ 15.00	7,500	\$ 0.35	7,500	11/10/1987	\$ 22.88
11	Falls Water 2001	2,172	Varies	\$ 11.50	20,000	\$0.41000	20,000	12/15/2003	\$ 15.60
12	Grouse Point Water Co.	23		\$ 22.00	8,000	\$ 0.50	8,000	1/1/2004	\$ 33.00
13	Happy Valley Water System	26	\$ 500.00	\$ 27.00	20,000	\$ 0.70	20,000	8/3/2001	\$ 34.00
14	Humpy's Water Co.	16	\$ 60.00	\$ 3.25	6,000	\$ 0.10	6,000	5/1/1963	\$ 5.65
15	Island Park Water Co.	259		\$ 10.42	Unmetered			7/1/1992	\$ 10.42
16	Morning View Water Co., Inc. (1/4 acre lot)	57		\$ 22.00	Unmetered			9/1/2002	\$ 22.00
17	Murray Water Works	33	\$ 800.00	\$ 26.00	Unmetered			7/15/2003	\$ 26.00
18	Packsaddle Estates Water Co.	35	\$ 430.00	\$ 34.24	Unmetered			6/3/1996	\$ 34.24
19	Picabo Livestock Co.	29	\$ 500.00	\$ 26.00 \$ 14.00	Unmetered			4/27/1994	\$ 26.00
20	Ponderosa Terrace Estates Water Co. (Full Time Customers)	10	\$2,500	\$ 48.00	Unmetered			8/1/2002	\$ 48.00
21	Rickel Water Co.	20	\$ 6,000.00	\$ 30.00	15,000	\$ 1.10	15,000	4/25/1997	\$ 46.50
22	Spirit Lake East Water Co.	240	\$ 650.00	\$ 12.00	9,000	\$ 1.00	9,000	12/1/1983	\$ 33.00
23	Stoneridge Water Co.	34	\$ 925.00	\$ 14.00		\$ 0.30	-	4/5/2002	\$ 23.00
24	Sunbeam Water Co.	22		\$ 12.00	12,000	\$ 1.20	12,000	5/31/1983	\$ 33.60
25	Troy Hoffman	144	\$ 458.00	\$ 5.50	3,000	\$ 0.60	3,000	8/1/1996	\$ 21.70
26	United Water Idaho	70,562	\$ 500.00	\$ 14.57	-	\$ 1.64	-	9/5/2000	\$ 63.82
	Total/Average Idaho	79,273	\$ 637.23	\$ 17.51	6,787	\$ 0.48			\$ 27.52

1 - The rates listed are strictly representative of residential customers and may not reflect actual rates paid by a specific customer.
 These rates also do not include DEQ fees which range from \$0.25 to \$0.50/month per customer.

State Average
 Flat Rate Utilities \$ 26.32 Per Month unlimited usage
 Flat Rate & Minimum Charge \$ 17.95 Per Month
 Average Hook-Up Fee \$ 976.00

Request No. 25

Response: the reason for a higher allocation was more difficult coordination of the work responsibilities in Response 23 above. Mr. Kruger is dependent on the efficiency of the contractor and property owners/home builders with his site visits.

Respondents: RJB, RM, JK

Request No. 26

Response: we have attached Exhibit "3" which details the hourly rate for our administrative and technical employees. The hourly rate is determined by each employee's salary with a 30% fringe benefit surcharge (at cost). We are proposing an administrative fee of \$135.07 per hook up in addition to the actual cost as billed by the contractor. This "Cost Plus" proposal negates the need to supply past costs for maintenance, supervisor and accounting services and makes a more linear connection between the actual costs to install and the indirect administrative costs of each hook up. Due to the burdensome nature of the request, we are dropping our request for vehicle compensation.

Respondents: RJB, RM

Request No. 27

Response: please see Response 26 above.

Respondents: RJB, RM

Request No. 28

Response: please see Exhibit 3

Respondents: RJB, RM

SPIRIT LAKE EAST WATER COMPANY
 15807 E. Indiana Ave.
 Spokane, WA 99216
 PWS # 1280176

	Per Hour Cost	Estimated Time	Total Cost
<u>Maintenance Personnel</u>			
Direct Labor Cost	12.36		
Fringe @30%	<u>3.71</u>		
Total	16.07	3.5	56.25
<u>Administrative Personnel</u>			
Direct Labor Cost	24.25		
Fringe @30%	<u>7.28</u>		
Total	31.53	2.5	<u>78.83</u>
Total per Hook Up			135.07

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 30TH DAY OF APRIL 2004, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. SPL-W-04-1, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

ROBERT J. BOYLE
SPIRIT LAKE EAST WATER CO.
15807 E INDIANA AVE
SPOKANE VALLEY WA 99216



SECRETARY