

DECISION MEMORANDUM

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

FROM: JOHN HAMMOND

DATE: MAY 21, 2004

SUBJECT: IN THE MATTER OF SPIRIT LAKE EAST WATER COMPANY'S
REQUEST TO INCREASE ITS HOOK UP FEES FOR WATER
SERVICE. CASE NO. SPL-W-04-1.

On January 14, 2004, the Spirit Lake East Water Company filed an Application requesting that the Commission authorize it to increase its hook up fee for 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 services approximately 240 customers in two larger 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 this Application and in response to subsequent production requests direct contract costs of up to \$2,500 that incurred for 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 are 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 builders, some 20 years later.

COMMENTS

1. Commission Staff. In 2002, Staff completed an audit of the Company for 2001. During that time the average contract cost for hook ups was just over \$1,000. This average cost was significantly lower than that proposed by the Company in its Application. In addition, Staff's review of the Company's recent annual reports reveals that its costs are lower than estimated by the Company in its Application. Given Staff's review it appears 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.

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).

STAFF RECOMMENDATION

Staff recommends that the Commission set the hook up fee based on a weighted average hook up fee based on a new fixed price contract and a fixed contribution to the Company supply labor of \$135. With this Staff anticipates that the hook up fee should not exceed \$1,200

including contract costs and Company labor costs for the 79 new service and 11 meter installations.

SPIRIT LAKE EAST REPLY COMMENTS

In its reply comments, the Company indicated that it agrees with Staff recommendation that the hook up fee should not exceed \$1,200. As a result it would accept a new hook up rate of \$1,200 per lot if granted by the Commission. The basis for this position is that the Company has obtained a quote from a contractor on the Idaho Public Works contractor list that working with Staff Engineer Michael Fuss. This contractor quoted a maximum rate of \$1,200 per lot per hook up that applies to most of the remaining lots. The Company states that it would recoup its administrative fees associated with the hook up with each lot but is confident and we are subject to rate increases by the contractor. However, the Company is confident in the contractor's ability to serve its customers in a timely manner and it wishes to reach finality on this issue. Accordingly, it therefore accepts Staff's position on the recommended hook up rate.

As a result of its Application, certain issues have arisen that the Company seeks Commission direction on. After the Company's Application was filed it received several payments for hook ups from customers but with indefinite dates to perform those hook ups. The Company has sent letters to those affected customers advising them that a lot hook up request received with the fee paid in full will be installed in the calendar year it was received in, subject only to inclement weather. The Company states that if the customer elects not to install or to hook up in the calendar year of the request and payment was received, Spirit Lake East Water Company will give full credit in the next year towards the hook up but the customer must pay the difference between the old rate and the new rate before we have to perform the installation. The Company requests that the Commission confirm this policy with customers.

COMMISSION DECISION

Does the Commission wish to authorize Spirit Lake East Water Company to raise the fee it charges for hook ups to its water system from \$650 to \$1,200?

Does the Commission wish to confirm the Company's policy regarding hook up requests that were filed after the Company's Application filed in this case?



John Hammond

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