

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF SPIRIT LAKE EAST WATER COMPANY) CASE NO. SPL-W-13-01
FOR AUTHORITY TO INCREASE ITS)
RATES AND CHARGES FOR WATER) ORDER NO. 32904
SERVICE)**

On March 5, 2013, Spirit Lake East Water Co. (“Spirit Lake” or “Company”) filed an Application requesting authority to increase its rates and charges for water service. *Application* at 1. The Company did not propose an effective date for the proposed changes to its rates. Spirit Lake requested that the case be processed through Modified Procedure. *Id.*

On April 10, 2013, the Commission issued a Notice of Application and Notice of Modified Procedure. *See* Order No. 32783. On June 6, 2013, the Commission issued a Notice of Public Workshop announcing a public workshop to be held on June 25, 2013, in Spirit Lake. On July 26, 2013, the Commission issued a Notice of Public Hearing. *See* Order No. 32860.

On September 3, 2013, the Commission received Spirit Lake’s reply accepting or agreeing with Staff’s recommendations.

On September 4, 2013, the Commission conducted a public hearing in Spirit Lake, Idaho to take public testimony regarding the Company’s proposed rate increase.

THE APPLICATION

Spirit Lake is a water corporation with offices in Coeur d’Alene, Idaho. Spirit Lake currently serves 288 full-time residential customers. Spirit Lake’s last general rate case was filed in 2006. In its Application, Spirit Lake proposes to increase its current base rate by 106%, from \$12.50 to approximately \$24.75 per month for usage up to 9,000 gallons. *Id.* Additionally, Spirit Lake proposes to institute a rate of 12 cents per 100 gallons consumed for all usage in excess of 9,000 gallons during each billing period. *Id.*

The Company requests authority to change its billing and meter reading procedure from a quarterly to monthly meter reading schedule. *Id.* The Company included an estimate of the future costs of this new billing procedure in its attached workpapers. The Company asserts that a “more frequent meter reading has been requested by many of the Company’s customers and the Company believes that it would be in the best interest of the public to convert to a program of monthly billing.” *Id.*

Spirit Lake's attached workpapers utilize a 2011 historical test year. The Company's rate base calculations reveal a current rate base of \$232,750. The Company's 2011 income statement demonstrates test year revenues of \$72,870 less total expenses of \$114,830 for a net income of -\$41,961. The Company alleges that, based upon an 11.42% allowed rate of return, it is operating under a total revenue deficiency of \$77,544 (including expenses for the processing of its current rate case). Combining the Company's test year revenue with its estimated total revenue deficiency leads to a total revenue requirement of \$150,414, or an approximately 106% overall increase from current rates.

PUBLIC COMMENTS AND TESTIMONY

The Commission has received approximately 20 written comments from customers regarding this case. Many of the customer comments recognized the need for an increase in rates, even if they did not agree with the percentage of the increase requested by the Company. One customer remarked that "it is unfortunate that a doubling of water rates is immediately required, but the two subdivisions have benefited from amazingly low water rates for decades and it is now time to pay the piper."

Spirit Lake customers expressed disapproval of the lack of adequate water pressure on the system. They also criticized the Company's plan to convert to a monthly meter reading/billing system. Some customers view the conversion as a needless expense. Other customers agreed that a monthly billing system should be implemented and that the Commission should implement a monthly billing system based on "statistical inference" in order to alleviate the problem of reading meters during winter months.

Several customers testified that they are on a fixed income and would not be able to afford an increase. *See* Tr. at 5, 9, 29-30, 43. There was also testimony in support of and against the installation of fire hydrants. *See* Tr. at 14, 24, 28, 32-33. Customers also voiced a general concern regarding the state of the overall economy as a justification for denying the Company's request for an increase.

COMPANY REPLY COMMENTS

On September 3, 2013, Spirit Lake submitted a reply to Staff comments. In its reply, Spirit Lake's owner, Ms. Abrams, agrees with or accepts all of the findings and recommendations put forth by Staff in its comments. Spirit Lake sought recovery of a backup pump and motor that was not included in Spirit Lake's original Application and, consequently,

Staff's audit. Ms. Abrams also informed the Commission that Spirit Lake will discontinue its business relationship with Water Works Inc. and hire dedicated employees beginning in November 2013.

In its reply comments, Spirit Lake sought to include as an expense the replacement of a 100 hp well pump and motor. *See* Spirit Lake Reply at 3, Exh. 3. Spirit Lake asserts that the replaced pump assembly was in use for almost eight years. The Company claims that, according to information provided by the manufacturer, this is the maximum life expectancy for a 100 hp motor that has been installed and operated properly. Accordingly, the Company stated that it will need to restock a backup pump and motor at an expected cost of approximately \$22,954.43.

I. REVENUE REQUIREMENT

Spirit Lake did not include a specific revenue requirement calculation in its Application. Staff recommended an annual revenue requirement of \$143,525. This represents additional revenue of \$70,655 above what the Company currently obtains through its current rates and charges for water service. Staff included Attachment L to its comments outlining its calculation.

Staff comments showed Company revenues associated with the return on rate base in the amount of \$37,358 ($\$327,034$ (see rate base below) \times 11.42% (see rate of return below)). Of this revenue, \$1,492 reflects interest on debt and is a deduction for tax purposes. The remaining \$35,865 is subject to taxes on both a federal and state level.

Staff then applied the gross multiplier calculation of 128.81% to \$35,865 in order to determine the amount that must be collected in rates to allow the Company an opportunity to earn an overall 11.42% rate of return (see below). The grossed-up return on equity is then added to the net loss of \$21,630 and the \$1,492 related to the debt portion of the capital calculation, resulting in the Staff recommended income deficiency of \$69,321.

Staff also allotted \$4,000 for rate case expenses, amortized over a three-year period, for an annual amount of \$1,333.

A. Test Year

Spirit Lake's attached workpapers used a 2011 historical test year. Staff agreed.

B. Return on Rate Base

Staff recommended a 12% return on equity and an overall return on rate base of 11.42%. The Company's Application contained \$163,195 in equity and \$15,375 in long-term

debt. The Company's only long-term debt is a loan for its backhoe at 5.3%. The weighted average of these sources of capital is 11.42% return on rate base. *See Staff Comments, Atch. K.* In its reply comments, the Company stated that it accepts all of Staff's recommendations regarding the Company's rate base.

C. Revenues

Staff accepted Spirit Lake's reported revenues and believes that the Company is using proper bill collection procedures, including discontinuing water service. Spirit Lake's only write-offs during the test year were attributed to the Company's policy of forgiving half of the consumption charge on leaks that were repaired in a timely manner. Staff accepted the Company's bad debt calculation of 0.5%. The Company's Application included \$2,500 in connection fees. This reflects past history and the Company expects to add one new customer per year.

D. Expenses

Staff conducted a thorough examination of Spirit Lake's Application, as well as an on-site audit and inspection of the Company's facilities. Staff included a summary schedule of its proposed adjustments to the Company's expenses. *See Staff Comments, Atch. A.*

In its Application, Spirit Lake claimed annual operating expenses in the amount of \$87,275 and \$27,555 in other expenses. Post-audit, Staff recommended annual operating expenses of \$72,289 and other expenses of \$22,211, a decrease of \$14,986 and \$5,344 from the Company's Application. Based upon the financial information provided by Spirit Lake, Staff calculated that the Company is operating at an annual net loss of \$21,630.

Spirit Lake filed a reply to Staff comments and accepted all of Staff's proposed adjustments. Below is a brief summary of the proposed adjustments:

1. Adjustment to Operating Expenses

The Company claimed annual operating expenses in the amount of \$87,275. Based upon the Staff's audit of the Company's financial records and its operation, Staff recommended including \$72,289 for annual expenses. *See Staff Comments, Atch. A.*

2. Adjustment to Rental Expense

In 2012, the Company ended its lease of a shop that included an office, moved its larger equipment to the pump house and rented an office in Coeur d'Alene. Staff recommended

removing the costs relating to the shop (\$1,200 per month x 12 month = \$14,400 per year). Staff did not amend the expenses relating to the new office.

Staff removed \$797 for power expenses and \$697 in miscellaneous expenses associated with power expenses for the operation of the shop also removed. The current office has a monthly lease of \$235 per month with a fee of \$30 for internet and \$30 for utility and maintenance. The net total of these adjustments is a \$797 decrease in purchased power expense, a \$10,860 decrease in rental expense, and a decrease of \$697 for miscellaneous expense. *See* Staff Comments, Atch. E.

3. Adjustment to Telephone Expense

When the Company moved from the shop to the office it also eliminated its dedicated telephone line and converted to an on-line phone service – Ring Central. The Company retained the same phone number and uses an e-mail service to record messages left for the Company. Accordingly, Staff recommended decreasing phone expense by \$1,241. *See* Staff Comments, Atch. F.

4. Adjustment to Related Party Labor Expense

Staff scrutinized the customer-related labor performed pursuant to a contract with Water Works Inc. Ms. Abrams is an officer for Water Works Inc., as well as owner of Spirit Lake. Staff obtained invoices from Water Works Inc. to Spirit Lake in order to recreate the number of hours worked in a variety of labor categories. Staff then made a comparison to wages reported by the Idaho Department of Labor's 2012 Idaho Occupational Employment and Wage Release. Because the cost of labor includes more than just wages paid to the employee (employment taxes, insurance, etc.), Staff used the high end of the middle category to calculate the cost of labor for each category.

In addition, travel was included in the cost of labor by calculating the number of trips required for each category then using the time required for travel as well as the IRS mileage reimbursement for distance travelled. This resulted in the Staff recommended cost of labor for each category. The Company reported \$1,364 in labor expense that was not invoiced by Water Works Inc. and was therefore disallowed. Staff recommended a net overall decrease in labor expenses of \$4,811. Staff noted that this adjustment has the effect of causing a shift in labor categories causing an increase in operations and management labor expense of \$9,777 and a

decrease in the administration and management labor expense of \$14,587. *See* Staff Comments, Atch. G.

5. Adjustment for Fuel for Power Production Expense

During its audit, Staff discovered that the Company included the costs of fuel for its onsite generator as a transportation fuel expense. Staff recommended transferring that amount (\$1,788) from the transportation fuel expense to fuel for power production. This adjustment would not alter the Company's revenue requirement.

6. Adjustment for Water Testing Expense

The Company proposed water testing expense of \$975. Staff consulted with DEQ and developed a complete list of required tests with a water testing cycle of nine years. The cost of nitrate tests was not included in the Company's spreadsheet. Staff included the cost of nitrate testing every nine years and calculated an annualized water testing cost of \$670. Accordingly, Staff recommended a \$305 (\$975 - \$670) reduction in the test year water testing to reflect normalized levels. *See* Staff Comments, Atch. H.

7. Adjustment for Purchased Power Expenses

The Company's Application revealed an annual purchased power cost of \$18,270. Staff calculated \$17,932 per year as the normalized cost of purchased power, based on average volume of water pumped. Staff recommended that the test year purchased power cost be reduced by \$338. *See* Staff Comments, Atch. I.

8. Adjustment for Change to Monthly Billing

Staff agrees with the Company's proposal to transition from a quarterly billing cycle to a monthly billing cycle. Staff calculated that this change will increase O&M labor expense by \$3,034 and administrative and management labor expense by \$2,002. This adjustment would be partially offset by a \$974 decrease in power expense due to improved leak prevention resulting from monthly meter reading. *See* Staff Comments, Atch. J.

9. Adjustment for Property Tax Expense

The Company's Application did not include the Bonner County property tax as a test year expense, a recurring cost. Staff recommended adding \$101 in property tax expense.

10. Adjustment for Interest Expense and Capital Structure

Staff removed interest expense from the income statement net income calculation. Interest expense is recovered in the revenue requirement through the return on capital as

reflected in the capital structure calculation. Interest expense is incurred on the loan for the backhoe and a line of credit that is used for the operating expenses. Staff stated its concern regarding the line of credit and does not believe it is prudent to allow a 21.9% interest rate to be reflected in the capital structure and revenue requirement.

Insurance Expense: The Company recorded \$2,510 in insurance expense. In 2012, the Company discontinued its insurance policy. Staff urged the Company to obtain a new insurance policy.

Depreciation Expense: The Company reported depreciation expense using income tax depreciation methods. These methods include accelerated depreciation and shorter lives than used in rate setting. Staff recommended annual depreciation expense of \$20,395. See Staff Comments, Atch. C.

Accumulated Depreciation: Staff adjusted the accumulated depreciation for additions and retirements. Staff recommended accumulated depreciation of \$840,577 on plant in service. See Staff Comments, Atch. D.

Materials & Supplies Inventory: This inventory includes a pump and motor for the well as required by the Idaho Department of Environmental Quality Consent Order. A previous failure of this pump and motor required a wait for shipping before it could be replaced. This wait resulted in a multi-day period without water. Staff noted the existing operating pump failed on the weekend of July 27, 2013. The pump and motor in inventory was used to replace the previous pump and motor.

E. Rate Base

Staff recommended a rate base of \$327,034. Staff's rate base calculation consisted of plant in service totaling \$1,216,107 less accumulated depreciation of \$840,577, less contributions in aid of construction of \$70,050, resulting in a net plant in service of \$305,480. Net plant in service of \$305,480, plus a material and supplies inventory of \$12,291, plus working capital of \$9,263 results in a total rate base equaling \$327,034. See Staff Comments, Atch. B.

Staff remarked that most of the system improvements by Spirit Lake were instigated because of the IDEQ Consent Order or attributed to the relative age of the water system. The following is a summary of the Company's additions to plant in service from 2006 through the 2011 test year and the corresponding Staff adjustments:

2006: The Asset Detail Reports for the FYE 2006 reported six categories of additions to plant in service totaling \$23,964. Three of the additions, totaling \$5,892, were included for recovery in the Company's previous rate case, Case No. SPL-W-06-01, Order No. 30279. These additions include \$1,048 for purification systems, \$2,400 for accounting software reported as office furniture and equipment, and \$2,444 reported as other tangible property. Staff removed \$456 for a metal detector no longer in service. Staff excluded reported additions for improvements to the reservoir tank, pressure bladders and mains totaling \$15,789, for plant in service due to lack of documentation.

Miscellaneous Equipment: Staff observed a sign, invoiced for \$1,827, at the well lot. The sign was capitalized in the amount of \$1,827.

Staff additions to plant in service for the FYE 2006 – \$1,827.

2007: The Asset Detail Reports for the FYE 2007 included additions to plant in service totaling \$81,663.

Reservoir: Additions totaling \$39,818 were reported. Documentation provided by Spirit Lake supports an increase of \$930 bringing the total to \$40,748. This amount includes project management fees, county permits and payments to the contractor. The documentation provided shows a down payment was made on October 18, 2007, 13 days before the end of the fiscal year. Building permits were issued in November 2007, with engineering services provided during October through December 2007. This timing indicates this addition was not placed in service during Fiscal Year 2007, but in the FYE 2008. Therefore, Staff capitalized this addition in Fiscal Year 2008.

Pump Motor: Staff's examination showed that the reported amount for the pump motor, \$7,022, did not include shipping charges which would bring the total to \$8,653, a difference of \$1,631. The original motor was fully depreciated upon retirement. No adjustment for the retirement is required. Staff capitalized pumping equipment in the amount of \$8,653.

Leak Detection: The Company reported \$34,823 for this category. Subsequently, Staff's examination revealed documentation supporting a total of \$36,582, a difference of \$1,759. These charges include valve location, valve exercising, labor, mileage, leak notices, and a valve survey. Staff believes the long-term useful life of the water delivery system will be benefited by the resulting improvements. Staff capitalized leak detection services in the amount of \$36,582.

Other Tangible Equipment: Among the timing differences are general engineering services. Staff analysis of the documentation displayed charges for engineering analysis and supervision. Staff remarked that normally such charges are part of the total project costs and are capitalized. Staff identified certain charges which appeared to be wholly or primarily associated with specific projects. These charges were reclassified to those specific projects so that depreciation expense would more closely match the expected benefit period of the specific improvement. The remaining items were capitalized as other tangible equipment totaling \$10,563.

Staff Additions to plant in service for the FYE 2007 – \$55,798.

2008: Asset Detail Reports for FYE 2008 revealed additions totaling \$151,469. The documentation provided by Spirit Lake supported a different total due to timing differences.

Reservoir: Additions to plant in service in this category began in 2007, but completed in FYE 2008. The addition of the reservoir tank, referenced above, was capitalized in the amount of \$40,748.

Structures and Improvements: Spirit Lake reported capitalized electrical plant in service totaling \$86,914. Documentation provided by the Company supports engineering services, labor, mileage and materials totaling \$86,914.

Power Generator: Staff analyzed the generator log for the 2011 calendar year. Staff's review of the log showed that the generator was tested weekly and provided backup electrical power to the pump house nearly every month. Staff's audit revealed the purchase and installation of the generator in the amount of \$59,421 was justified.

Staff additions to plant in service for the FYE 2008 – \$187,083.

2009: The Asset Detail Report for FYE 2009 shows three additions totaling \$27,597.

Office Furniture and Equipment: Staff's examination of the documentation showed a printer/scanner was purchased for \$665. The purchase price was not added to plant in service because it was replaced in less than one year.

Communications Equipment: A replacement auto-dialer was purchased for \$1,951. The original was not fully depreciated. Adjustments to the plant account and to accumulated depreciation are required for this retirement. Staff capitalized \$1,951 in this category.

Power Operated Equipment: Documentation revealed that the Company purchased a backhoe from a related party for \$24,981. The backhoe is used for repairs and light construction.

It appears to meet the needs of the water system. Staff tested the prudence of this purchase by comparing the total annual cost to current rental rates for an equivalent model. Considering the distance to rental companies, availability, and transportation costs, Staff believes that the amount of \$24,981 expended by the Company is properly capitalized.

Transportation Equipment: Staff was not able to locate \$5,001 worth of equipment listed in plant in service. Accordingly, Staff removed this amount from plant in service. No depreciation adjustment is required.

Staff additions to plant in service for the FYE 2009 total \$26,932.

2010: Asset Detail Reports for FYE 2010 showed additions totaling \$3,111.

Meters: The Company reported additions totaling \$1,524 in this category. Staff did not add this amount to plant in service due to lack of documentation.

Office Furniture and Equipment: Documentation provided by Spirit Lake supported the reported additions to office equipment. The additions included a laptop computer for \$1,163 and a replacement printer/scanner for \$424, for a total amount of \$1,587. Staff capitalized office equipment totaling \$1,587.

Staff additions to plant in service for the FYE 2010 – \$1,587.

2011: The Asset Detail Report listed additions totaling \$1,943.

Office Furniture and Equipment: Spirit Lake owner, Ms. Abrams, stated that the laptop computer purchased for \$1,163 malfunctioned and was subsequently deemed beyond repair. Staff removed this amount from plant in service and depreciation.

Meters: Documentation provided by Spirit Lake supports the inclusion of meters totaling \$1,943. The meters replaced older meters. The older meters were fully depreciated; no retirement adjustment was needed.

Staff Additions to Plant in Service for FYE 2011 – \$1,943.

Commission Findings: The Commission notes that it has been over seven years since it approved an increase in Spirit Lake's rates and charges for water service. See Order No. 30279, SPL-W-06-01. Spirit Lake is legally "entitled to rates that will cover its operating costs and provide an opportunity to earn a reasonable rate of return on its investment devoted to utility business." Order No. 30970 at 5 (BCS-W-09-02). The Commission must base its rate determinations on the record it is presented. While the Commission acknowledges the many

objections by customers to a general rate increase, we cannot simply deny a utility's request for an increase in rates without a justification supported by substantial evidence for doing so.

Every utility has certain fixed costs related to the normal course of business. For a water utility, these fixed costs include, but are not limited to, rental/purchasing equipment, billing costs, collection costs, maintenance costs and the purchase of power to run the motors and pumps that transmit the commodity to customers. It is in the best interest of all customers that Spirit Lake be able to attain a reasonable return on its investment and remain a financially and operationally sound utility. The overall financial and operational integrity of a utility increases reliability of service and helps to lower the Company's borrowing costs.

The Commission finds that the utilization of a 2011 historical test year is fair, just and reasonable. The Commission finds that Staff's proposed adjustments to the Company's expenses and recommended rate of return, outlined above and accepted by the Company, are fair, just and reasonable. The Commission finds that a 12% return on equity and 11.42% overall rate of return is a fair, just and reasonable return for the Company. *See* Order Attachment A. This ruling is entirely consistent with past Commission precedent for small water companies and particularly for water systems comparable to Spirit Lake. *See* Case TRH-W-10-01, Order No. 32152; BCS-W-09-02, Order No. 30970; and Case No CCH-W-12-01, Order No. 32662. The Commission's established revenue requirement and return does not constitute a guarantee that a utility will attain that level of revenue or rate of return, only that it is permitted to do so.

The Commission finds that Staff's rate base calculations are reasonable and supported by the evidence. However, the Commission notes that Staff's analysis did not include the Company's late filing request to include the replacement of a backup motor and pump for rate recovery. "Only 'used and useful' property is permitted in rate base." Order No. 30970 at 5. The Commission finds that the Company's acquisition of a backup well pump and motor to replace the previous pump in operation for eight years is a reasonable decision. Therefore, we grant the Company's request to replace a 100 hp pump motor and assembly subject to Staff verification and review in its next scheduled audit of Spirit Lake's finances.

The Commission's approval has the practical effect of lowering the Company's accumulated depreciation expense, overall rate base and revenue requirement. Therefore, based upon the record before the Commission, including Spirit Lake's Application, Spirit Lake's reply

comments, public testimony, customer and Staff comments, Spirit Lake's rate base and revenue requirement are established at \$302,041 and \$140,105 respectively. *See* Order Attachment A.

Additionally, the Commission orders Spirit Lake to retain an updated and comprehensive insurance policy to replace its previous insurance policy. The Commission finds that obtaining an insurance policy is a reasonable and prudent action that would benefit customers by mitigating future financial risk of the Company.

II. RATE DESIGN

In its Application, the Company proposes to maintain its current base charge volume allowance of 9,000 gallons/month, its commodity charge of \$0.12 for residential and commercial customers, and increase its monthly customer charge to \$24.75.

In its comments, Staff stated that it investigated two basic rate design options and ultimately recommended that the Commission approve new rates maintaining the Company's existing single-block rate design with a base charge volume allowance of 6,000 gallons/month, a \$25.25 monthly customer charge and a commodity charge of \$0.224 for residential and commercial customers.

Staff based its rate design approach on several premises: promotion of water conservation; bringing Spirit Lake's rate design more in line with the rate design guidelines recommended by the American Water Works Association; and conforming to the design developed by Staff and approved by the Commission in recent general rate cases for other small water utilities. *See* TRH-W-10-01, Order No. 32151; BCS-W-09-02, Order No. 31002; and FLS-W-09-01, Order No. 32022.

Under Staff's proposal, the total revenue contributed by the minimum customer charge is 61% and the revenue contributed by the commodity charge is 39%. *See* Staff Comments, Atch. N.

Commission Findings: Based upon our review of the record, public testimony, Staff comments and numerous comments from Spirit Lake's customers, the Commission finds that a slight decrease in the monthly volume allowance in order to encourage conservation is warranted. However, the Commission finds that a more measured and incremental decrease from the current 9,000 gallons/month to 8,000 gallons/month is appropriate. *See* Order Attachment B.

The Commission acknowledges serious customer concerns regarding the potential impact of a more dramatic decrease in the monthly volume allowance from the current 9,000 gallons/month to the Staff-recommended 6,000 gallons/month. *See* Tr. at 5, 30. We believe that water conservation habits can and should be given an opportunity to develop over time.

The Commission’s decision to adopt a decrease in the monthly volume allowance is not punitive. Persons who wish to use a greater amount of water every month may do so. However, high-volume users will have to pay a premium for their additional consumption. By lowering the monthly volume allowance by 1,000 gallons, the Commission strikes a reasonable balance between encouraging conservation, not overly burdening low-volume users, and minimizing the potential for rate shock among high-volume users.

Based on the aforementioned rate design, the Commission calculates that the average bill over a 12-month period for a metered residential customer would be approximately \$51.18, or an increase of 103.9% above current rates. *See* Order Attachment B.

Season	Avg. Usage (gallons)	Current Monthly Bill	New Monthly Bill	Amount of Increase in (\$)	Percent Increase %
Winter	6,000	\$12.50	\$25.55	\$13.05	104.4%
Summer	30,000	\$37.70	\$76.81	\$39.11	103.7%
Average	18,000	\$25.10	\$51.18	\$26.08	103.9%

III. METER READING AND BILLING

The Company’s Application proposes to change existing billing and meter reading procedures from a quarterly to monthly meter reading and billing schedule. The Company claimed that more frequent meter reading has been requested by many customers. Spirit Lake estimates that changing to monthly meter reading and billing would cost \$8,550 annually, an increase of \$1,225 per year.

Staff recommended the Commission approve the Company’s request to implement a monthly meter reading and billing procedure. Company meter reading and billing records examined by Staff indicate that for the last three years, the Company read meters three times in 2010 (October to March, April to June and July to October – quarterly usage) and only two meter readings during 2011 and 2012 (October to June – nine month usage, and July to October – quarterly usage).

Staff used invoices from third party vendor Water Works Inc. to recreate the billing determinants and create the number of hours used for services related to meter reading/billing and payment processing. Using Idaho Department of Labor Statistics, Staff calculated the total test year cost for meter reading/billing under the current system. Staff then calculated the cost of meter reading/billing under Staff's proposal and on a quarterly, bi-monthly, and monthly basis. Converting to a monthly meter reading/billing procedure under Staff's proposal would result in an increase of \$5,036.04 above current test year costs. *See Staff Comments, Atch. J.*

Staff went further and analyzed the financial benefits of converting from a quarterly meter reading/billing to a monthly schedule and discovered that excessive usage due to leaks is an ongoing problem on Spirit Lake's water system. The total volume of customers' excess usage was 5,207,822 gallons during a specific billing period for those customers experiencing "leaks." The total cost of these "leaks" was estimated to be \$3,125 (one half of 5,207,822 gallons of excess usage @ \$1.20 per 1,000 gallons). This is equivalent to approximately 2,603,911 gallons of water lost due to "leaks" for 2012.

Additionally, Staff noted that using purchased power cost of \$0.374 per 1,000 gallons pumped during the test year (\$19,079 power cost/51,018,500 gallons pumped x 1,000 gallons), the total power cost saved by the Company converting to a monthly meter reading system would be \$974 (2,603,911 gallons x \$0.374 per 1,000 gallons).

Commission Findings: In its Application and reply, Spirit Lake advocated for change to a monthly meter reading/billing system. The Commission finds that implementing a monthly meter reading/billing procedure is fair, just and reasonable. A monthly billing schedule will be more economical over time. The Commission finds, and the record demonstrates, leak detection is a significant problem for the Company. Implementing a monthly meter reading/billing system will benefit the entire water system by eliminating waste sooner, facilitating the acquisition of regular consumption data, and affording customers a better opportunity to reduce monthly bills.

IV. OTHER SYSTEM AND OPERATION ISSUES

The Company submitted copies of its customer notice and the press release and mailed all customers a copy of the customer notice. The press release was published in the Coeur d'Alene Press on April 10, 2013.

The Company has already converted its billing to the new billing system discussed earlier in Staff comments, and the new system meets the requirements of the Utility Customer Relations Rules (UCRR). Currently, the Company utilizes three separate notices in its attempt to collect a past due balance, plus a door hanger to be left if the customer is not at home the first time it attempts to collect the bill at the door. Staff remarked that the contents and formatting of the notices do not meet the requirements of the UCRR. Staff recommended that the Company revise its termination notices with assistance of Staff.

The Company's tariff predates the Model Tariff for Small Water Utilities implemented in 2008 and it does not include a copy of the Uniform Main Extension Rules. The Company needs to update its tariff to conform to the current version. Staff recommended that the Company revise its tariff to include its rate schedules, the General Rules and Regulations for Small Water Utilities, and the Uniform Main Extension Rule in a format consistent with the Model Tariff.

Staff noted several outdated provisions in the Company's tariff and recommended that language discrepancies between the commodity rates and meter readings use consistent units of measure in order to resolve customer confusion. Staff recommended the Company use hundred cubic feet (CCF) and 1,000 gallon increments as the unit of measure for excessive usage.

The Company electronically converts volume usage from cubic feet to gallons when it creates its billing spreadsheets, if necessary, prior to importing the information into the billing system to generate the customer billing. Staff recognizes that the Company has more customer meters registering in cubic feet (90%) than in gallons (10%) and that as meters are replaced all meters will measure usage in cubic feet.

In the interim, Staff recommended the Company indicate usage on the customer's bill in either cubic feet or gallon increments, depending upon the unit of measure of the customer's meter. Staff also recommended the Company revise its rate schedule to include both cubic feet and gallon rates, preferably in terms of hundred cubic feet (CCF and/or 1,000 gallons (1K gallon) increments, and revise the notes on billing to reflect those increments of measure.

Staff recommended the Commission direct the Company to send out an annual rules summary to its customers, as required under the UCRR Rule 701 or the Explanation of Rate Schedules as required under Rule 702.

Staff reported that there were no informal complaints to the Commission for the years 2010 and 2012. In 2011, there were two complaints in which the customer stated they had not received a bill, but did receive termination notices. The Company worked with the customers and termination was avoided in both instances.

As a result of customer comments received in this case, Staff initiated five informal complaints regarding meter malfunction (1); water pressure (3); and water quality (1). The malfunctioning meter was confirmed to be inoperative and scheduled for replacement. When the Company checked water pressure at the complainants' service addresses, pressure was found to be above the IDEQ minimum operating limits of 30 psi at all three locations. The water quality issue was a complaint about a bleach odor of the water. The Company's response to the Commission complaint indicates that it treats all water prior to the water being pumped into the main storage reservoir, even though the quality of the water produced does not require treatment.

Commission Findings: As discussed earlier in this Order, the Commission conducted a public hearing wherein it heard public testimony regarding Spirit Lake's Application. The Commission notes that a Company representative did not attend the public hearing. Responsiveness to customer concerns and/or complaints is a basic tenet of any successful business, and the operation of a small water system is no exception. In the future, Spirit Lake shall appoint a representative to attend all relevant public hearings. Additionally, Spirit Lake shall send out an annual rules summary to its customers, as required under the UCRR Rule 701, or the Explanation of Rate Schedules as required under Rule 702.

Spirit Lake is also directed to update its tariff to reflect the rates and charges approved in this Order, as well as include its rate schedules, the General Rules and Regulations for Small Water Utilities, and the Uniform Main Extension Rule in a format consistent with the Model Tariff. Spirit Lake is ordered to remove any outdated provisions and language discrepancies in its tariff so that the commodity rates and meter readings use consistent units of measure.

Finally, in response to customer inquiry, *see infra* at 3 (Public Comments and Testimony), the Commission orders the Company to provide the Commission with an evaluation of the feasibility of adding fire hydrants to its water system within six months of the date of this Order. The Commission believes that, subject to a cost effectiveness analysis, the addition of fire hydrants may be a net benefit to customers.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over Spirit Lake, a water utility, and the issues presented in Case No. SPL-W-13-01 pursuant to Idaho Code, Title 61, and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

ORDER

IT IS HEREBY ORDERED that the Application of Spirit Lake East Water Co. to increase its rates and charges for water service is approved. The Company is authorized to collect a total revenue requirement of \$140,105 from its customers, with expenses, rate base, rate of return, capital structure and rate design as approved and described more fully in this Order and Attachments.

IT IS FURTHER ORDERED that the rates and charges for water service approved herein shall become effective on November 1, 2013.

IT IS FURTHER ORDERED that Spirit Lake is authorized to implement a monthly meter reading and billing system for its customers.

IT IS FURTHER ORDERED that Spirit Lake shall submit tariffs in compliance with the rates and charges set forth in this Order no later than 14 days from the service date of this Order.

IT IS FURTHER ORDERED that Spirit Lake shall obtain a new insurance policy covering its business and related activities.

IT IS FURTHER ORDERED that Staff shall independently review and verify the purchase of a backup pump and motor mentioned in Spirit Lake's reply comments in its next regular audit of the Company.

IT IS FURTHER ORDERED that the Company shall express the commodity charge on its rate schedules and bills to customers in both \$ per 1,000 gallons and \$ per hundred cubic feet (CCF).

IT IS FURTHER ORDERED that the Company shall revise its termination notices to conform to Commission Rules.

IT IS FURTHER ORDERED that the Company shall create an explanation of rate schedules and rules summary and provide the required documents upon initiation of service and annually thereafter.

IT IS FURTHER ORDERED that the Company shall revise its tariff to include its rate schedules, the General Rules and Regulations for Small Water Utilities, and the Uniform Main Extension Rules in a format consistent with the Model Tariff.

IT IS FURTHER ORDERED that the Company shall continue with its plan to hire dedicated employees no later than November 2013.


IT IS FURTHER ORDERED that the Company shall provide the Commission with a detailed evaluation regarding the addition of fire hydrants to its water system within six months of the date of this Order.

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 11th day of October 2013.



PAUL KJELLANDER, PRESIDENT




MACK A. REDFORD, COMMISSIONER



MARSHA H. SMITH, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

O:SPL-W-13-01_np3

Spirit Lake
 Spirit Lake East Water Company
 Case No. SPL-W-13-01

1	Rate Base	\$302,041	
2	Rate of Return	<u>11.42%</u>	
3	Return on Investment	34,493	
4	Net Operating income Realized	<u>(21,902)</u>	
5	Net Operating income Deficiency	56,395	
6			
7	Net Operating Loss	21,902	
8	Debt Cost on Rate Base	<u>1,492</u>	
9	Deficiency not subject to Gross Up		23,394
10	Deficiency subject to Gross up	33,001	
11	Gross up Factor	<u>128.81%</u>	
12	Grossed up Deficiency		<u>42,509</u>
13	Operating Revenue Deficiency		\$65,903
14			
15	Rate Case Expense	4,000	
16	3 year amortization		<u>1,333</u>
17	Total Revenue Deficiency		67,236
18	Test Year Revenues at Current Rates		<u>72,870</u>
19	Total Revenue Requirement		<u>\$140,105</u>
20			
21			
22	Gross Up Calculation		
23	Net Deficiency	100.00%	
24	PUC Fees	0.2253%	
25	Bad debts	<u>0.5000%</u>	
26		99.27%	
27	State Tax at 8.0%	<u>7.94%</u>	
28	Federal Taxable	91.33%	
29	Federal Taxable at 15.0%	<u>13.70%</u>	
30	Net After Tax	77.63%	
31	Net to Gross Multiplier	128.81%	

Spirit Lake East Water Case No. SPL-W-13-01

Rate Design and Calculated Revenue

Commission-Approved Volume Allowance = 8,000 gallons per month

Commission-Approved Revenue Requirement: **\$140,105**

Total Number of Customers: Residential **288**

MINIMUM CUSTOMER CHARGE

Type of Customers	Number of Customers	Volume Allowance (Gallons)	Minimum Customer Charge	Total Annual Rev. from Min. Customer Charge
Residential	288	8,000	\$ 25.55	\$ 88,301

COMMODITY CHARGE

Commodity charges for all customers (\$/1,000 gallons)	\$ 2.33
Net Volume of Excess Usage (gallons) <u>1/</u>	22,277,000
Total Commodity Revenue	\$ 51,905

Total Revenue (minimum customer and commodity charges): \$ 140,206

Revenue over (under) Revenue Requirement: \$101

Various Charges as a % of Gross Revenue:

Minimum Customer Charge 63%

Commodity Charge 37%

1/ Based on 8,000 gallons volume allowance per month.

	Percent	
	Increase	
Orig Base Rate		
6,000 vol allow	25.25	1.19%

	Percent	
	Increase	
Orig Base Rate		
6,000 vol allow	2.24	4.02%
Excess Usage	22,276,751	From other sheet

Original	61%
Ratio	39%