Office of the Secretary
Service Date
October 12, 2018

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE JOINT APPLICATION OF UNITED WATER IDAHO INC., AND BRIAN SUBDIVISION WATER USERS ASSOCIATION FOR APPROVAL OF AN AMENDMENT TO CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY NO. 143; APPROVAL OF AN AGREEMENT FOR CONNECTION AND TRANSFER OF WATER SYSTEMS; APPROVAL OF RATES AND CHARGES	**CASE NO. SUZ-W-18-01** **ORDER NO. 34153**

On September 29, 2014, Suez Water Inc. fka United Water Idaho, Inc. ("Suez") and Brian Subdivision Water Users' Association ("Brian Water Users") jointly applied to the Commission seeking an Order authorizing Suez to connect to, and take over operation of, Brian Subdivision's water system. This request came about because of insurmountable costs related to contaminants in Brian Water's ground water wells. At that time, Suez estimated it would cost $1.3 million to connect the systems. The Commission ultimately authorized Suez to connect and provide service to Brian Subdivision's customers. The Commission also approved certain ratemaking treatment, including a process for Suez to true-up estimates to actual costs once the connection was complete. Order No. 33195.

On May 1, 2018, Suez filed an application (the "Application") requesting that the Commission approve a trued-up rate, and conforming tariffs for Suez's costs of connecting to, and taking over operation of the Brian Water system. Suez supported its Application with testimony and documentary evidence. Suez also asked that its Application be processed by modified procedure. No effective date was requested.

The Commission set a June 27, 2018, intervention deadline. No one intervened. However, Richard Juengling, President of the Brian Subdivision Water Users Association ("Brian Water Users"), was an active participant in the case, and provided comments to the Commission.

On August 9, 2018, the Commission ordered the case be processed by modified procedure. The Commission set an August 23, 2018, comment deadline and a September 6, 2018 deadline for the Company to reply. In addition to the public comments of Mr. Juengling, Staff provided timely comments and the Company filed a timely reply.

THE APPLICATION

In its Application, Suez noted that in the 2014 case, the Commission authorized Suez to extend its pipeline under the New York Canal and the Boise River to connect with the eastern end of Suez's mainline near the Brian Subdivision. Application at 2. Suez estimated it would cost $1,340,209 to connect to Brian Water's system, including approximately $1,215,184 in pipeline costs and $125,026 in service and meter costs. *Id.* The Commission authorized Suez to recover these costs as follows:

1. Former Brian Water customers would pay, as a lump sum or over 10 years, all service and meter costs within the subdivision and 10% of the trued-up pipeline costs. The remaining 90% of trued-up pipeline costs would be rate based among all Suez customers;

2. Regarding the 90% of trued-up pipeline costs allocated to all Suez customers, the Company would defer recovery of costs (and accrue allowance for funds used during construction ("AFUDC")) until those costs are included in base rates through Suez's next general rate case; and

3. Once complete, Suez would file a conforming tariff specifying the terms of service for customers in Brian Subdivision.

See id. The Commission further authorized Suez to return to the Commission for approval of trued-up costs. *See Id.*

With this Application, Suez has asked to recover its trued-up costs. Suez represented that it took two more years than expected to connect the systems, and cost $1,692,177, nearly half a million dollars over its initial estimates. Suez stated its trued-up costs included $1,541,504 in pipeline costs, of which former Brian Water customers would pay 10% (or $154,150), and all Suez customers would pay 90% (or $1,387,353). The trued-up costs also included $150,673 in service and meter costs to be entirely paid by former Brian Water customers. *See* Wyatt Direct at 3-5. The Brian Water Users' share of the trued-up costs was $304,823, which consisted of $154,150 in pipeline costs and $150,673 in service and meter costs. Suez proposed to recover these costs from the former Brian Water customers through a one-time lump sum surcharge of $6,350.99 per Brian Water customer, or a $154.55 surcharge per Brian Water customer every two months for 10 years. *Id.* at 7-8. Suez attributed the delays and cost overruns to geotechnical issues with boring under the New York Canal and Boise River. *Id.* at 5-7.

COMMENTS AND TESTIMONY OF PARTIES

A. Staff

Staff provided the Commission with a comprehensive review of Suez's Application, exhibits, and information received through discovery, and reported that the actual project costs claimed by the Company are accurately and properly recorded in the Company's books. Staff Comments at 2. Staff generally supported Suez's Application and trued-up calculation of costs as "prudently incurred, and in compliance with Commission Order No. 33195." *Id.* But, Staff recommended the Commission allocate costs differently than how they were to be allocated under that order. *Id.* at 2-3.

According to Staff, because of the significant delays and cost overruns, certain costs that exceeded Suez's estimates should be rate based and borne by all customers. Specifically, delays and engineering changes in the Highway 21 River Crossing increased costs by $260,500. *Id.* at 4. Staff stated that while these costs were prudently incurred, Suez could have better anticipated the overruns when it applied to connect the systems. *Id.* at 5. Staff argued it would be unfair to allocate 10% of these excess costs to customers in Brian Subdivision because current and future customers outside Brian Subdivision, including those in Barber Valley, will benefit from Suez having extended its pipeline under the Boise River. *See id.* at 3-5.

Staff also noted that Suez claimed it had inadvertently stopped accruing AFUDC in November 2017, when the project was completed. *Id.* at 3. Staff disagreed with Suez that AFUDC should continue to accumulate on the Brian Water surcharge portion of the project until the surcharge is approved and implemented. Staff noted that the Commission did not specify the AFUDC treatment for the portion covered by the surcharge. Staff stated that traditional ratemaking would be appropriate—that AFUDC should cease to accumulate on the Brian Water allocated costs once the project is completed and placed in service regardless of when the project is included in rates. *Id.* at 4. Staff thus recommended that AFUDC not continue to accumulate on the surcharge portion of the project.

Besides the cost allocations discussed above, with regard to Suez's proposed tariff Schedule 1C for the Brian Subdivision, Staff recommended several other revisions. *Id.* at 6. Specifically, Staff recommended that language be added to account for Budget Billing and clarifications in language regarding Commission authority. *Id.* at 6-7. Staff further recommended that the Company issue direct notice to Brian Subdivision customers about these revisions after a final order issues in this case. The notice should include the overall surcharge amount, payment options and terms, including the availability of Budget Billing. *Id.* at 7-8. Finally, Staff recommended the Commission order Suez to file semi-annual reports on the status of the Brian Subdivision arrearages and payment plans, with the initial report due six months after the Commission issues its final order. *Id.*

B. Brian Subdivision Water Users Association

Brian Water Users provided comments that echoed Staff's appraisal of the process and result of connecting the Brian Water system with Suez. Specifically, Brian Water Users take umbrage with paying for additional costs when Suez caused the delays and cost overruns and many more customers will benefit from the new pipeline than when the original application was made to connect the systems. Brian Water Users Comments at 2-3. Brian Water Users go further than Staff, however, to argue that Brian Subdivision customers should pay for costs arising within the Subdivision only, and that "[n]o portion of the cost to bring the pipeline under the Boise River should be separately [allocated to Brian Subdivision customers]." Brian Water Users also commented that its water rights are worth approximately $50,000 and should offset costs to customers in Brian Subdivision. Brian Water Users Additional Comments at 1.

C. Suez

Suez agreed with Staff's recommendation to rate base the additional project costs. Company Response at 1-2. The Company stated this approach "will help to mitigate the financial impact of the unforeseen additional costs on the small number of Brian Subdivision customers…." *Id.* at 2. Suez also agreed with Staff's recommendation that Suez change Schedule 1C to include Budget Billing, and notify Brian Subdivision customers of their payment options. *Id.* at 2-3.

With regard to the Brian Water Users' comments, the Company was sympathetic to the financial burden on Brian Subdivision customers, but points out that, when Brian Water and Suez jointly applied to connect the two water systems, Brian Water claimed the proposed pipeline was "the only feasible option for Brian Subdivision." *Id.* at 3 (internal quotes omitted). Suez also commented that the new pipeline is Brian Subdivision's primary water supply, while "Homes separate from the Brian Subdivision, off Warm Springs Avenue between Highland Valley Road and Signal Rock Drive, continue to be provided their water supply from the Company's existing Harris Ranch Reservoir in the Harris Ranch development." *Id.* 4.

DISCUSSION AND FINDINGS

The Commission has reviewed the arguments advanced by the Company and Staff, as well as the statements filed by Mr. Juengling, on behalf of the Brian Subdivision Water Users Association. After due consideration, we find Suez has met its burden of showing that it reasonably and prudently incurred the costs to connect Suez and Brian Water. Likewise, Suez's request to true-up actual costs by $351,968, from its estimate of $1,340,209 to $1,692,177 (including $1,541,504 in pipeline costs and $150,673 in service and meter costs) is approved as prudent. Nevertheless, Staff's and Brian Water Users' concerns about the spread of these costs are well-founded.

There is no dispute that construction was delayed for two years, and delays and engineering changes in the Highway 21 River Crossing increased Suez's original estimate of pipeline costs by $260,500. It also is undisputed that the river crossing benefits both the Brian neighborhood and the surrounding area, which has grown substantially over the last three years. Once the Highway 21 River Crossing is looped with the Warm Springs line, it will have abundant capacity to benefit current and future customers along Warm Springs Avenue, and in the east side of Boise. Accordingly, we find that, of Suez's $1,541,504 in actual pipeline costs, Suez should collect the entire $260,500 in river crossing cost overrun from the general population of customers through base rates and should not allocate those costs between those customers and Brian Water customers at the 90%/10% allocation approved in Commission Order No. 33195. This means that the Schedule 1C surcharge to former Brian Water customers shall be calculated to recover $278,773, i.e., 10% of ($1,541,504 - $260,500) + $150,673. We find it fair, just, and reasonable for Suez to file a revised Schedule 1C reflecting the adjusted surcharge amounts prior to implementing any surcharge, with a November 12, 2018, effective date. *See Idaho Code* § 61-307.

Further, we find that AFUDC is appropriately accrued on all construction costs for the Brian Water connection until these costs are included in rates. This is consistent with our prior order. To be clear, AFUDC will no longer accrue on the $278,773 Brian Water surcharge amount because Suez will begin to collect the surcharge amount from Brian Water customers under revised Schedule 1C. The remaining connection costs will accrue AFUDC until included in rates at the conclusion of the next general rate case.

Additionally, we find the customer notice provisions recommended by Staff to be appropriate. Suez shall mail each of its Brian Subdivision customers a letter defining the surcharge amount, payment terms, and available payment options including Budget Billing. Finally, the Company shall file semi-annual reports regarding arrearage and payment plan status with the Commission, with the initial report due in six months.

ORDER

IT IS HEREBY ORDERED that the actual project costs of $1,692,177, for the construction project originally approved in Order No. 33195, are approved. $278,773 shall be borne by Brian Subdivision customers and immediately placed into rates through the changes approved in Schedule 1C, with all other costs placed into rates after Suez's next general rate case.

IT IS FURTHER ORDERED that AFUDC shall no longer accrue on the $278,773 Brian Water surcharge amount.

IT IS FURTHER ORDERED that Suez file with the Commission a conforming Schedule 1C by October 15, 2018, with changes to take effect November 12, 2018.

IT IS FURTHER ORDERED that Suez shall mail each of its Brian Subdivision customers a letter defining the surcharge amount, payment terms, and available payment options including Budget Billing.

IT IS FURTHER ORDERED that Suez shall file semi-annual reports as outlined above.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 12th day of October 2018.

PAUL KJELLANDER, PRESIDENT

KRISTINE RAPER, COMMISSIONER

ERIC ANDERSON, COMMISSIONER

ATTEST:

Diane M. Hanian
Commission Secretary

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