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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** **COMMENTS OF THE COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission, submits the following comments regarding the above referenced case.

BACKGROUND

The Brian Subdivision ("Subdivision") consists of 48 residences in South East Boise, Idaho. Prior to December 17, 2014, water for 46 of the subdivision's 48 residences was supplied from a shallow well operated by the Brian Subdivision Water Users' Association ("Brian Water"). The Brian Water system had a history of nitrate contamination levels exceeding water quality compliance limits, and had been operating under a Department of Environmental Quality ("DEQ") consent order since April 28, 2011. The DEQ consent order required Brian Water to eliminate nitrate from its drinking water system. An independent engineering analysis determined that an interconnection with United Water of Idaho ("Company") would be the most cost effective means for providing safe drinking water to the Subdivision.

On September 29, 2014, the Company and Brian Water applied to the Commission requesting an order authorizing the Company interconnect with Brian Water and assume operation of Brian Water's domestic water system. Case No. UWI-W-14-01. On December 17, 2014, the Commission issued Order No 33195 amending United Water Company's CPCN to include the Subdivision within the Company's Service Territory. The Commission also ordered the Company update the Subdivision's system to Company Standards, and authorized construction of a Highway 21 River Crossing main line extension.

The Commission's order required the Subdivision customers to pay 10% of the cost of the Highway 21 River Crossing main line extension, 10% of the costs of upgrading mains within the subdivision, and 100% of the costs of meters and new and upgraded services. The remaining costs would be spread among all customers. Subdivision customers would be given the option of paying their share of these costs up front, or via a 10-year surcharge. The Company estimated the cost of meters and new/upgraded services to be $125,026. The Company also estimated that costs subject to 90%/10% sharing (Highway 21 Crossing, and upgraded subdivision mains) to be $1,215,184. Costs not collected from Brian Water customers would be subjected to an Allowance for Funds Used During Construction ("AFUDC") included in the next general rate case.

On May 1, 2018, in compliance with Order No. 33195, the Company requested the Commission approve a trued-up rate and conforming tariffs for the costs associated with connecting to, and taking over operation of, Brian Water.

STAFF REVIEW

Staff reviewed the Company's Application, exhibits, and additional information received through production requests. Staff conducted an audit of the actual project costs and verified that the total cost of $1,692,177 is accurate and properly recorded on the Company's books. The costs allocated to the former Brian Water customers and subject to the surcharge is $304,824. Based on this amount, the proposed surcharge one time lump sum payment would be $6,350.99 per customer, or the proposed bi-monthly surcharge would be $154.55 over 10 years. Staff supports the Company's trued-up proposal of costs because the costs appear prudently incurred, and in compliance with Commission Order No. 33195. However, after reviewing the record, Staff found that the project incurred significant delays and cost overruns. Accordingly, Staff proposes an alternative cost allocation for the Commission's consideration.

As discussed in detail in Greg Wyatt's testimony, delays in the Highway 21 River Crossing necessitated the pipeline work to be re-bid. The new bid was approximately $183,000 higher than the bid considered by the Commission two years earlier. Additionally, a bore casing had to be installed on the south side of the New York Canal to enable the boring, at an additional cost of $77,500. Staff believes the Commission should consider that current and future customers beyond the Subdivision, including Barber Valley, are beneficiaries of the Highway 21 River Crossing. Wyatt Direct at 5. Likewise, Staff believes the additional costs should be included in rate base and borne by all customers. Allocating the $260,500 overage to all customers will decrease the amount allocated to Brian Subdivision customers by $26,050 overall. The resulting bi-monthly surcharge would be $141.35 or a one time lump sum payment of $5,808.22. See Staff Attachment A.

Application of AFUDC

AFUDC is a component of construction costs representing the net cost of borrowed funds and a reasonable rate on other funds used during construction. Under generally accepted accounting principles, AFUDC is added to the construction costs and capitalized into rate base when the project is placed into service. However, the Commission stated "[a]ll capitalized project construction expenditures not supported through revenue collected from the surcharge will continue to be subject to AFUDC until included in rates. This portion of the expenditures refers to the 90% of the true-up costs of the main line installation to connect to the system." Order No. 33195.

The Company noted that it "inadvertently stopped AFUDC as of November 2017 when the project was placed in service." Response to Production Request No. 1. The Company implies that AFUDC should continue on the surcharge portion until such time as the surcharge is approved and implemented. *Id.* The Company "proposes not to adjust the surcharge to account for this, but rather to include this amount in a future rate filing." *Id.* Staff agrees. Pursuant to Order No. 33195, the Company should continue to accrue AFUDC on the 90% of project costs not subject to a surcharge to the former Brian Water customers until those costs are included in the Company's rates. The Commission did not specify the AFUDC treatment for the portion covered by the surcharge. Because nothing is specifically stated, Staff believes that traditional ratemaking is appropriate, and that AFUDC should cease once the project is completed and placed in service regardless of when the project is included in rates. Staff thus recommends that AFUDC cease on the surcharge portion of the project when it was placed in service.

The Highway 21 River Crossing

The Highway 21 River Crossing is a 4,000 foot long, 12 inch main connecting the Brian Subdivision to the Company's existing mains in Surprise Valley. The route required horizontal boring under the New York Canal, Boise River, and Penitentiary Canal. According to the Company, canal authorities would only permit boring operations during months in which the Canal is not in operation, so that construction could only occur between mid-October and mid-March of each year.

Completion of the Highway 21 River Crossing was delayed two years, and cost approximately $260,500 more than the Company presented in its 2014 estimate.[1] Although Staff believes the actual costs incurred by the Company for this portion of the project were prudently incurred, Staff also believes that the 2014 estimate understated the costs and risks that should reasonably have been anticipated for this project.

Boring was originally supposed to have been completed during the 2014-2015 drilling season; however, the boring company (Earth Energy) experienced frequent caving, and at least one large boulder that delayed completion of the borehole until May 2017. Construction of the final successful borehole required the boring Company to hammer approximately 160 feet of 30 inch diameter steel casing through loose rocks and dirt under the canal. The Company explained that it only paid Earth Energy for the final successful attempt to bore under the New York Canal, and that it did not pay for any unsuccessful attempts.

Staff notes that the geology in this area is complicated, and that the Highway 21 River Crossing traverses at least three different geological units. The lithology at the site where the bore hole crosses beneath the New York Canal is described as unconsolidated sand, gravel, and

[1] The incremental cost associated with the successful borehole attempt was $77,500. The two year delay required pipeline work to be rebid at a cost of approximately $183,000 higher than the original estimate. Wyatt di, p. 5.

cobbles interspersed with basalt.[2] Basaltic outcrops are visible immediately above and below the New York Canal.

Staff believes that the problems with caving and boulders should have been anticipated by the Company and its boring contractor, and that the elevated costs of boring under these conditions should have been included in the cost estimate presented to the Commission in 2014. A more realistic assessment of costs and risks might have resulted in selection of a less risky, lower cost alternative to serve the Subdivision, such as the Warm Spring Option. Staff also believes that the two year delay caused by unsuccessful attempts to bore under the New York canal could have been avoided if the Company and its boring contractor had made their initial boring attempts using methods and materials suitable for the known lithological conditions.

Notwithstanding Staff's concerns about the 2014 cost estimate, Staff believes that actual costs of the Highway 21 River Crossing were prudently incurred, and provide an immediate benefit to the Company's customers in the Subdivision and surrounding area. Once looped with the Warm Springs line, the Highway 21 River Crossing will have sufficient capacity to be beneficial to all current and future customers on this segment of Warm Springs Avenue.

Because of construction delays, no benefits of the Highway 21 River Crossing accrued to Subdivision customers for more than two years after the original planned completion date. Staff believes the Commission should conclude that the $260,500 cost overrun should be collected through base rates, and excluded from the 90%/10% formula used to allocate other costs of the river crossing.

Work Within the Subdivision

The Company reported that the costs of renovating mains and services within the Subdivision were approximately $43,000 more than was presented in its 2014 estimate. Staff concurs that these expenses were necessary to update the Subdivision's system to conform to Company standards. Given the 50+ year age of the mains and services within the Subdivision, Staff does not believe that the Company could reasonably have inferred the condition of each pipe prior to excavation.

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[2] Othberg and Burnham, Idaho Geological Survey Technical Report 90-4, Geologic Map of the Lucky Peak Quadrangle, Ada County, Idaho. 1990.

Tariff Schedule 1C Brian Subdivision Surcharge

Staff recommends several revisions to the Company's proposed Schedule 1C as described in more detail below.

Budget Billing

The Commission provided Subdivision customers the opportunity to enroll in the Budget Billing program offered by the Company. Order No. 33195 at 9. Staff recommends that the Company allow Brian Subdivision customers to sign up for Budget Billing at this time.

The Company started connecting Subdivision customers to Suez' system in September 2017. In its November 2017 Quarterly report, the Company announced that all former Brian Water customers had been connected. Since then, the Company has accumulated at least nine months of billing data. Staff believes that there is sufficient data available to allow Suez to estimate usage for the additional months necessary to provide a full 12 months' worth of data. This will enable the Company to calculate a monthly Budget Billing amount for customers who wish to enroll in Budget Billing.

For those customers who choose to enroll, the amount of the monthly surcharge will be $77.28–one-half of the surcharge amount. Staff recommends that the Surcharge Amount paragraph in Schedule No. 1C be revised as follows:

> A bi-monthly surcharge in the amount of $141.35 will be billed every other month unless the customer is enrolled in Budget Billing. Budget Billing customers will be billed $70.67 monthly. The surcharge is in addition to charges for water service as specified in Schedule No. 1, General Metered Service and other applicable charges.[3]

Conditions of Contract

As proposed, Schedule 1C lists four provisions under the title "Conditions of Contract." One condition states: "The surcharge shall not be subject to change in subsequent general rate proceedings absent a showing of adversity to the public interest." Application Exhibit No. 8.

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[3] These numbers represent billing amounts recommended by Staff that exclude the $260,500 cost overruns from Brian Water Customers. Should the Commission choose to treat the entire trued-up amount in the same manner as it did in Order No. 33195, with Brian Subdivision customers being allocated for 10% of costs and 90% being spread among ratepayers, an additional $304,824 should be included in the surcharge to Subdivision customers, resulting in a bimonthly surcharge of $154.55, or $77.28 monthly for customers enrolled in budget pay.

This provision could be interpreted to limit the Commission's or Commission Staff's discretion in future proceedings. Likewise, Staff opposes its inclusion as proposed by the Company. Staff proposes the following revision to clarify the Company's intent: "The Company shall not propose to change the surcharge amount, terms or conditions in subsequent general rate proceedings."

Semi-Annual Reports

The Commission previously ordered the Company to submit semi-annual reports discussing the status of arrearages and payments plans for Brian customers. Order No. 33195 at 11. Staff recommends the Company begin those reports six months after the issuance of the final order in this case.

CUSTOMER NOTIFICATION

The Company mailed a direct notice via letter to residents of Brian Subdivision on May 7, 2018, and also provided a copy to the Commission Staff. Staff reviewed the document and determined that it does not meet the requirements for a customer notice pursuant to Rule 125 of the Commission's Rules of Procedure (IDAPA 31.01.01) because it does not inform customers of the opportunity to file comments or follow the case through the Commission's RSS feed, and did not identify the percentage increase of the proposed surcharge over the original estimate. However, because the Company is requesting approval to implement a surcharge in compliance with Order No. 33195, instead of proposing a change to existing rates, Rule 125 does not apply. Although Staff appreciates the Company's effort to inform effected customers of the proposed surcharge, Staff is concerned that customers were not informed of the opportunity to file written comments with the Commission in this case. As of August 16, 2018, no customers have filed written comments.

Letter to Customers

The Company also submitted a proposed letter to be sent to customers following the issuance of the final order in this case. Exhibit No. 10 to Greg Wyatt's testimony. Staff recommends that the Company address Budget Billing in its letter. Staff also recommends that the letter address what happens if a customer does not notify the Company within 30 days of which payment option they choose (billed bi-monthly, Budget Billing, or lump sum payment). Staff's assumption is that bi-monthly billing would be the Company's default billing method.

STAFF RECOMMENDATIONS

Staff recommends the following:

1. Approval of the actual project costs of $1,692,177, with the $278,773 to be borne by the Brian Subdivision Water Users Association customers;
2. Approval of Schedule No. 1C Brian Subdivision Surcharge in the amount of $141.35 bi-monthly payment for 10 years, or a one-time lump sum payment of $5,808.22;
3. Order the Company to mail each of its Brian Subdivision customers a letter defining the surcharge amount, payment terms and available payment options including Budget Billing;
4. Order the Company to allow Brian Subdivision customers to enroll in Budget Billing at this time based on available account data;
5. Order the Company to place Brian Subdivision customers on a bi-monthly billing if they do not notify the Company of a preferred billing option within 30 days;
6. Revise Schedule 1C as suggested; and
7. Order the Company to file its semi-annual reports to the Commission with the initial report due six months after the final Commission order in this case.

Respectfully submitted this 23rd day of August 2018.

Brandon Karpen
Deputy Attorney General

Technical Staff: Kathy Stockton
Bentley Erdwurm
Chris Hecht
Mike Morrison

i:umisc:comments/suzw18.1bkklscwhbemm comments

Idaho Public Utilities Commission
Staff Attachment A
SUZ-W-18-01

ORIGINAL ESTIMATE	Total Cost	Allocation Percentage to BSWUA	BSWUA	Allocation Percentage to SUEZ Customers	SUEZ Customers	Lump Sum Surcharge	Monthly/Bi-Monthly Surcharge Payment
Pipeline Cost	$ 1,215,184	10%	$ 121,518	90%	$ 1,093,666		
Service & Meter Costs	$ 125,026	100%	$ 125,026	0%	$ -		
TOTAL	**$ 1,340,210**		**$ 246,544**		**$ 1,093,666**	**$ 4,941.49**	**$ 62.43**
						bi-monthly >	**$ 124.86**

COMPANY PROPOSAL	Total Cost	Allocation Percentage to BSWUA	BSWUA	Allocation Percentage to SUEZ Customers	SUEZ Customers	Lump Sum Surcharge	Monthly/Bi-Monthly Surcharge Payment
Pipeline Cost	$ 1,541,504	10%	$ 154,150	90%	$ 1,387,353		
Service & Meter Costs	$ 150,673	100%	$ 150,673	0%	$ -		
TOTAL	**$ 1,692,177**		**$ 304,824**		**$ 1,387,353**	**$ 6,350.99**	**$ 77.28**
						bi-monthly >	**$ 154.55**

COMMISSION STAFF PROPOSAL	Total Cost	Allocation Percentage to BSWUA	BSWUA	Allocation Percentage to SUEZ Customers	SUEZ Customers	Lump Sum Surcharge	Monthly/Bi-Monthly Surcharge Payment
Pipeline Cost	$ 1,281,004	10%	$ 128,100	90%	$ 1,152,904		
Pipeline Cost/Delay	$ 260,500	0%	$ -	100%	$ 260,500		
Service & Meter Costs	$ 150,673	100%	$ 150,673		$ -		
TOTAL	**$ 1,692,177**		**$ 278,773**	**$ -**	**$ 1,413,404**	**$ 5,808.22**	**$ 70.67**
						bi-monthly >	**$ 141.35**

Attachment A
Case No. SUZ-W-18-01
Staff Comments
08/23/18

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 23RD DAY OF AUGUST 2018, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. SUZ-W-18-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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