

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF STONERIDGE WATER COMPANY FOR) CASE NO. SWS-W-06-01
AN INCREASE IN RATES AND CHARGES)
AND TO MODIFY RULES AND)
REGULATIONS) ORDER NO. 30342
)

On November 20, 2006, Stoneridge Water Company filed an Application for an increase in rates and charges and changes to its rules and regulations. On December 18, 2006, the Commission issued a Notice of Application and Notice of Modified Procedure. Order No. 30204. On February 16, 2007, the Commission established a comment deadline of April 27, 2007. Order No. 30250.

On April 27, 2007, the Commission Staff, as well as Stoneridge Recreational Club Condominium Owners Association, Inc. (Stoneridge Resort), the only intervenor in this case, filed comments. On May 14, 2007, both the Company and the intervenor filed replies to the comments of Staff. On June 1, 2007, Staff also filed reply comments correcting several items from its original comments. With this Order the Commission approves an increase in rates and charges, establishes the surcharge amount for the interconnection of the system, and approves changes to the Company's rules and regulations as more fully set forth below.

BACKGROUND

On November 20, 2006, Stoneridge Water Company filed an Application with the Commission seeking "to allow for the closing out of Phase I and Phase II loans for the Happy Valley Ranchos annexation and surcharge associated thereto, for an increase in the monthly user fees, an increase in the hookup fees, an increase in the disconnection/reconnection fees and for clarifications and changes to the Rules and Regulations." The indebtedness for Phase I and Phase II loan amounts was previously approved by the Commission in Order Nos. 29320, 29507, and 29719.

A. Phase I and Phase II Loan Amounts – State Drinking Water Revolving Fund Loan

In Order No. 29320, Case No. SWS-W-03-1, issued on August 26, 2003, the Commission authorized Stoneridge Utilities to take out a loan in the principal amount of \$213,500 from the State Drinking Water Revolving Fund. The debt was approved to allow a service area expansion and interconnection of an adjacent homeowners' water system serving the

Happy Valley Ranchos Subdivision (HVR). The Commission further authorized Stoneridge to use a surcharge to recover the debt and financing incurred to complete the project. However, the Commission reserved judgment on the appropriate amount of the surcharge until the State Drinking Water Revolving Fund loan was finalized and construction costs more certain. Stoneridge Utilities was also directed to apply its currently approved rates to the HVR customers once water service was provided by the utility.

In Order No. 29507, Case No. SWS-W-03-1, issued on May 28, 2004, the Commission increased the authorized indebtedness for Stoneridge to \$323,990 from the State Drinking Water Revolving Fund loan. The increased loan amount was due to increased contracting costs from \$213,500 to \$235,990 for the improvements authorized in Order No. 29320 in August 2003. The additional increase in the total loan amount also included \$88,000 for additional system-wide improvements required by the DEQ to meet the "Ten State Standards." The additional improvements included upgrading reservoir and pumping controls and replacement of the Company's backup well pump. The original interconnection project with HVR was identified as "Phase I" and the controls and backup well improvements were identified as "Phase II."

In Order No. 29507, the Commission reaffirmed its authorization to use the surcharge mechanism approved in Order No. 29320 to recover the debt and financing costs incurred to complete the interconnection project (Phase I). Stoneridge was also directed to file the final interconnection project costs upon completion for the Commission to determine the final reasonable surcharge level. In its Order, the Commission reserved judgment on how to collect the cost of the backbone improvement project (Phase II). The Company was directed to file final construction, engineering, and financing costs for a proper recovery determination upon completion of the system (Phase II) improvements.

In Order No. 29719, Case No. SWS-W-04-01, the Commission authorized an increase in the principal amount of the State Drinking Water Revolving Fund to \$438,500. The increased loan amount was the result, in part, of increased costs from \$235,990 to \$275,000 for the interconnection project (Phase I). This increase was due to higher engineering and easement costs, as well as minor contract quantity increases. The increase was also a result of an increase from \$88,000 to \$163,500 for the controls and backup well costs (Phase II). Again, the Commission reserved judgment, as it had in both Order No. 29320 and Order No. 29507, as to

the appropriate amount of the surcharge previously approved for interconnection (Phase I), as well as how to collect the cost of the backbone system improvements (Phase II).

B. The Current Application

The Company filed a fairly comprehensive Application following the pattern available on the Commission's web page for small water company Certificates of Public Convenience and Necessity. In fact the Company titled its Application as that for the issuance of a Certificate. However, the Company currently possesses a Certificate, *see* Order No. 28994, and it is clear from a review of the Application that the filing is a general rate case. The Company did not request a specific effective date for the proposed new rates. On March 13, 2007, the Company also made a supplemental filing providing additional information in support of its Application.

As stated above, the Company had previously taken out a series of loans from the State Drinking Water Revolving Fund totaling approximately \$438,500. *See* Case No. SWS-W-04-01, Order No. 29719 (authorizing the loan amounts and describing the background surrounding the loans, system expansion, and system improvements). The Commission, in its previous Orders authorizing the Company to incur the indebtedness, specifically reserved judgment on the appropriate amount of the surcharge for Phase I interconnection. Order No. 29719 at 5. The Commission also specifically reserved judgment on how the Company may collect the cost of the backbone system improvements for Phase II. *Id.*

According to the Customer Notice prepared by the Company in this case, its request to the Commission consists of six parts:

(1) A monthly fee to service the Happy Valley Ranchos loan will be imposed on all those current and future customers that were added as a result of the Happy Valley Ranchos annexation. (2) A monthly service fee to service the well repair loan will be imposed on all current and future customers within the Stoneridge Utility service territory. (3) A monthly user fee increase will be imposed on all current and future customers within the Stoneridge Utility service territory. (4) A disconnect/reconnect fee increase will be imposed on all customers having their water shut off and turned on at a later date. (5) A hookup fee increase will be imposed on all customers requesting a new service connection. (6) And clarifications and changes to some of the General Rules and Regulations.

The Company states it currently has 374 customers, and will ultimately have approximately 1,207 customers with the planned developments within its service territory. The

Company is requesting to increase the customer charge to \$38 for all equivalent units (customers), and the commodity charge to \$0.67 for all water used. The Company is also proposing to increase its hookup fee for new service from \$925 to \$1,200. The Company also proposes increasing its reconnection charge to \$278 during office hours, and \$328 after office hours. This amount equates to six months' base charge plus \$50 and \$100, respectively.

C. System Description

Among small water companies, the Stoneridge Water System is unique in the wide variety of customers it serves. The customers are divided between two main geographic groups: the Happy Valley Ranchos subdivision (HVR), and the Stoneridge development (SR). These two groups are separated in location by about one-half mile. As a group, the HVR customers are solely residential, consisting of 101 single-family residential customers. The SR customers consist of approximately 100 single-family residential customers, 12 condominium units, 150 timeshare units, 3 recreation centers, 1 golf course irrigation customer, about 37 currently developed motor coach units, and commercial customers including a sales office, event and maintenance center.

The water system consists of: Approximately 66,300 feet of 2-inch to 12-inch mains and branches; two operating wells (1,000 gpm and 600 gpm); one above-ground concrete storage tank, 325,000 gallons; two buried steel storage tanks, 10,000 gallons each; four buried concrete storage tanks, 3,000 gallons each; a booster pump station and chlorination systems as well as various valves and controls. Upon Staff's inspection, the system appeared to be of sound design, good condition, and well maintained.

CUSTOMER COMMENTS

On February 21, 2007, a public workshop was held in the Stoneridge Events Center. Approximately 63 customers signed the workshop sign-in sheet. Customers in attendance represented Happy Valley Ranchos Subdivision, Stoneridge Resort, and individual Stoneridge homeowners. Four representatives of the Company were at the workshop. During the often-lively discussion, it was discovered that the Happy Valley Ranchos customers were not being charged the monthly surcharge that was approved by the Commission after the merger of Happy Valley Ranchos, Inc. with Stoneridge Water in 2004. Customers from HVR were concerned that their rates could increase dramatically because of this rate case plus the addition of the surcharge. The majority of statements made indicated that the water service provided by Stoneridge and

customer relations were satisfactory. Customers were concerned that the proposed rate design was not fair given the variation in usage by customers. Customers did not agree on who the highest users were. Some customers felt that Stoneridge did not fairly represent itself during negotiations with HVR during the 2003-2004 merger discussion. The main issue in contention was the Company's statement that the second well was in good condition at the time of the merger, but now the Company has repair costs included in the test year for this case.

The Commission has received approximately 15 written comments and one petition with 35 signatures regarding this rate case. One comment was from a timeshare owner who stated that in the proposed tariff, each of the 143 timeshare members would be charged the base unit charge. He points out that the timeshare units consist of four buildings with one meter each. The annual consumption of the timeshare members represents 6% of the total water usage. He would like to see rates applied in proportion to the usage rather than all potential users paying a flat monthly charge in addition to the commodity charge. Three comments argued against the proposal to charge the Stoneridge Resort Golf Course the same rates as proposed for residential and commercial customers. The Company is proposing to eliminate its tiered rate structure and replace it with a flat monthly customer charge and a commodity charge that would be applied to all users. This would result in increased monthly charges for condominium units; each would be treated as individual customers rather than master metered users. The Company's proposed change would dramatically reduce the amount paid by the golf course.

The customer petition asks that the Commission consider three specific issues. The first is that the Company's proposed tariff would remove any distinction between customer classes with all customers paying the same rate. The petitioners request that each class remain separated. Staff has recommended keeping the customer classes separate due to the distinct differences of those classes of water service. The second issue on the petition is listed as "Residential 'Lifeline' Service." Because of the large number of residential customers who are on fixed incomes in the service area, the petition suggests that the customer charge include a commodity of 6,000 to 12,000 gallons. The petition maintains that this would bring the rate structure more in line with the surrounding water districts. Staff comments under the topic of "Commodity Charge" address the reasons that Staff agrees with the Company's proposal to not include any commodity with the customer charge. The final item in the petition addresses Residential Service Charges. The petitioners state that the proposed rate increase is listed as a

92% increase. However, their calculations figure it to be at least 123%. The petition requests that any rate increase approved over 20% be structured in such a way as to be phased in over a period of years to “save the utility the additional expense of filing each year and the Commission the added work load each year until the rates are brought into line.” The Petition also included a 2006 Rate Study of communities in the area.

Several comments acknowledged the need to start charging HVR customers the surcharge as previously ordered by the Commission but felt that a large rate increase in addition to the surcharge would be burdensome. Three customers disputed the responsibility of HVR homeowners to pay for the costs associated with the drilling and improvements made for a second well. They maintain the Company declared in the merger discussion that the well was in working order. One customer requested a hearing after Staff completed its investigation so accurate audit and rate proposal information would be provided to the customers, who would then be allowed to present their views to the Commissioners.

REVENUE REQUIREMENT

The Company proposed a rate base in the amount of approximately \$436,000, a rate of return of 11%, annual expenses of \$125,000, and a revenue requirement of \$208,000. Staff initially recommended that the Company’s rate base should be \$51,254, with a 12% rate of return, annual expenses of \$116,073, and ultimately a revenue requirement of \$132,349. However, in its reply comments, Staff acknowledged an additional \$52,373 of rate base, increasing the Company’s rate base to \$103,627, and increasing the revenue requirement to \$140,352.

The intervenor, Stoneridge Recreational Club Condominium Owners Association, Inc. (Resort), did not conduct its own separate audit with regard to the Company’s revenue requirement. It stated generally that it believed the Company’s system is overbuilt and that any excess capacity should not be included in rate base. The Resort stated that, since it has not conducted an extensive audit, it generally concurred with Staff’s analysis and recommendation regarding the revenue requirement. However, Stoneridge Resort also stated that consideration should be given to the fact that the system has excess capacity available to service new developments, and that this should be considered property held for future use on which the Company is prohibited from earning a return. Citing *Idaho Code* § 61-502A. The Resort stated generally that costs proposed to be included in rate base for charges to existing customers were

also incurred for the benefit of the excess capacity held by the Company for the benefit of new development and should, to some extent, be absorbed by the developer.

A. Rate Base

During its audit of the Company's proposed rate base, Staff excluded approximately \$337,000 from rate base. Staff recommends a rate base of \$103,627. Specific costs were not included for one of the four following reasons: First, there were several invoiced charges that were clearly for work for other entities and not associated with the water company, and other costs included in the Company's rate base calculation that are not specifically documented as benefiting the water company. The result of Staff adjustments in this first category decreases the Company's requested rate base by \$332,543.99. Second, Staff removed an additional \$3,012.50 that was identified with the Phase I, interconnection, loan amount. As that loan amount is subject to recovery by a surcharge to the residents of Happy Valley Ranchos, it should not be reflected in rate base. Third, any costs that were paid for with proceeds from the Phase II loan are included in rate base as a total "Phase II" group and not included separately in the rate base amount. The Company indicated in its Application that the total cost for the Phase II project is \$160,457; and after audit Staff agrees with this amount. Therefore, this amount is included in Staff's final total of rate base. Fourth, one invoice documented a repair to the system instead of a capital improvement. Repairs to a water system are costs that should be included in annual operation and maintenance expenses and are not to be considered a capital improvement. Only capital improvements are included in rate base. Therefore, Staff removed this amount from the Company's rate base.

Commission Findings: A basic principle utilized by this Commission in setting the rates of a public utility is that, generally speaking, a Company may earn a return on capital improvements that are currently used and useful in providing utility service to its customers. Here, the Company has proposed numerous items for the inclusion into rate base that are/were not capital investment in the water company, but in other entities such as the golf course. As such they are not appropriate for recovery from the ratepayers of the water utility. We find Stoneridge Water's net rate base to be \$103,627.

B. Test Year and Annual Expenses

The Company used a forecasted test year of 2007 to determine annual expenses of \$125,000. The Commission has consistently determined that the annual revenue requirement and rates should be set on the basis of an historical test year. Therefore, Staff utilized a 2006 test year based upon an audit of actual expenses with adjustments for known and measurable changes. Staff audited the annual expenses of the Company and relied upon the actual results as reported for 2006. On the basis of the actual operating and maintenance expenses experienced by the Company in 2006, Staff then looked to see if any of the expenses should be adjusted for any known and measurable factors.

The actual expenses for 2005 and 2006 are presented in Staff Exhibit No. 104 with the Company's 2007 forecasted test year. Staff Exhibit No. 104 shows the calculated annual expenses of \$116,073 that Staff recommended be used to determine the annual revenue requirement.

Commission Findings: As this Commission has previously expressed, our policy when setting utility rates is to utilize an historic test year that can be verified by audit of actual numbers prior to placing new rates into effect. Consequently, in this case, we find that an historic test year, utilizing actual numbers from 2005 and 2006, with some known and measurable adjustments, to be proper. We find the Company's annual expenses to be \$116,073.

C. Rate of Return

The Company requested a rate of return of 11%. However, Staff recommended a rate of return be set at 12% for this Company. Staff stated that the Company needs to realize a 12% return so it will have sufficient revenue to make the interest and principal payments on the Phase II loan. Additionally, Staff noted that the Commission has recently granted a 12% rate of return to Falls Water Company in Case No. FLS-W-05-01, Order No. 30027, and to Capitol Water Company in Case No. CAP-W-06-01, Order No. 30198.

Commission Findings: On this record, the Company appears to have a very well built and maintained water system that provides a quality product to its customers. A 12% rate of return is consistent with returns granted recently to other small water companies providing adequate service to customers. See Order No. 30027 and Order No. 30198. We find that a 12% rate of return is appropriate for this Company.

D. Revenue Requirement Calculation

Staff recommended that, using the rate base, rate of return, and expenses from above, the Company's revenue requirement be calculated as follows:

Return on Rate Base	\$14,903	
Annual Expenses	\$116,073	
Depreciation	\$6,181	
Grossed-up Taxes	\$3,195	
Revenue Requirement		\$140,352

Attachment A, Staff Reply Comments.

Commission Findings: We find that the Company's annual revenue requirement is \$140,352.

RATE DESIGN

The Company, the Staff, and the Resort each initially proposed different rate designs, based upon different rate base and revenue requirements. However, after the parties all submitted reply comments, the Company acknowledged that Staff's proposed rate design from Staff's reply comments is acceptable. The Resort generally agrees with the rate design; however, its proposed numbers were based on a different revenue requirement. Additionally, while the Resort supports the general methodology used for the rate design, i.e., a varying customer charge based on meter size, it has proposed a slightly different proportional allocation and commodity charge.

A. Customer and Commodity Charge

1. **The Company** – The Company proposed a customer charge of \$38 and a commodity charge of \$0.67 per 1,000 gallons. The Company's Application proposed to recover its revenue requirement with a rate design that imposes a flat rate customer charge of \$38 across all classes to all customers on a per unit basis. A unit would be defined as any single isolated point of use, not necessarily a metered point of use. For example, the condominium and timeshare owners do not have separate meters but would each be billed \$38 per month under this proposal. The Company also proposed increasing the commodity charge from \$0.30 per 1,000 gallons to \$0.67 per 1,000 gallons. This is applied to all customer classes and all water supplied to customers. The Company's originally proposed rate increase is as follows:

The Company's Proposed Rates

	Customer Charge	Commodity Charge
Residential	from \$14/mo. to \$38/mo.	from \$.30/1,000g to \$.67/1,000g
Commercial	from \$20/mo. to \$38/mo.	from \$.30/1,000g to \$.67/1,000g
Time Share Complex	\$40/meter/mo. to \$38/Timeshare Unit/mo.	\$.30/1,000g to \$.67/1,000 gal.
Golf Course Irrigation	\$1,200/mo. to \$38/mo	\$.30/1,000g to \$.67/1,000 gal.

2. **The Staff** – Staff proposed a customer charge that varies proportionately with the size of the meter, using \$24 as the base monthly charge for a 3/4-inch meter and a commodity charge of \$0.79 per 1,000 gallons for all customer use. Staff proposed customer charges based on the capacity to deliver to each customer, or meter size. Given that: (1) the current structure does not include any commodity volume with the customer charge and neither the Company nor Staff proposes a commodity volume with the customer charge and; (2) equivalency units are notoriously inaccurate for an individual customer, Staff recommended that the physical capacity to deliver water be used as the measure to set varying customer charges. The minimum meter size in the system is 3/4-inch; it is also the most common size and is used for most single-family residential units. Meters larger than 3/4-inch in diameter have an increased flow capacity in direct proportion to the square of their opening. Staff originally proposed a customer charge for 3/4-inch meter service of \$18.10 per month. This was changed to \$24 in Staff reply comments. Further, Staff proposed that, using the standard residential 3/4-inch meter customer charge as a base, all other customers' customer charges be set as a multiple of the base using the flow area ratio as the multiplier. Attachment B to Staff's reply comments provides the flow ratio of opening sizes and resulting customer charges for the various meter sizes.

Staff's Proposed Customer Charge

Meter Diameter, inches	Meter Flow Area, sq inches	Ratio to Flow Area of 3/4 in Meter	Resulting Minimum Monthly Charge
0.75	0.44	1	\$24.00
1.00	0.79	1.78	\$42.67
1.50	1.77	4.00	\$96.00
2.00	3.14	7.11	\$170.67
2.50	4.91	11.11	\$266.67
3.00	7.07	16.00	\$384.00
4.00	12.56	28.44	\$682.67
6.00	28.26	64.00	\$1,536.00

Attachment B, Staff Reply Comments.

Staff proposed a commodity charge of \$0.79 per 1,000 gallons for all customers except the golf course. The golf course water supply is interruptible and the golf course has the ability to shift its demand on the system to off-peak hours. This provides value to the Company because it assists the Company in meeting the higher priority residential demands in the event the main well is down or there is some other contingency. Because of this, Staff recommended a 10% discount to the commodity rate for the golf course to recognize these benefits to the system.

Staff did not support a rate design that included a set quantity of water with the customer charge. There is presently no quantity of water provided with the customer charge. The Company did not propose to change the tariff to include any amount of water with the customer charge. Staff agreed with this decision for reasons of conservation and consistency. First, the aquifer tapped by Stoneridge Water wells is a recharge feeder to the Rathdrum Prairie aquifer. There is significant concern for both water quality and conservation of the Rathdrum Prairie aquifer due to growth and increasing use of the aquifer. Recent Staff recommendations and Commission decisions have addressed these concerns by focusing on meeting a larger portion of revenue requirement increases from the commodity rather than the minimum/customer charge (Bitterroot Water, Case No. BIT-W-05-01, Order No. 29966). Second, the current revenue stream is heavily weighted to the customer charge and the commodity rate is very low compared to those of other nearby water companies. A shift to inclusion of an amount of water with the customer charge will exacerbate the situation.

3. **The Resort** – Stoneridge Resort (Resort), while generally supporting Staff’s proposal to have a varying customer charge based upon meter size, proposed a slightly different rate design, or increase from the base charge that used the same proportional increase for meter size as that used for United Water. The Resort opposed the Company’s use of equivalent units. Additionally, the Resort referenced the rate schedules for United Water Idaho, Capital Water Co. and the City of Coeur d’Alene in support of a varying customer charge based on meter size. Exhibit 202. The Resort proposed establishing a rate design based upon actual physical meter connection sizes and water consumption. While agreeing with Staff’s recommendation that the physical capacity of the system to deliver water, as measured by the different meter sizes for different customers, should be considered when setting the customer charge, the Resort stated that not all customers will be utilizing the full capacity available to them, nor is it likely that a customer would require its full available capacity except under extraordinary circumstances. Therefore, it proposed, “taking into consideration other factors . . . including the quantity of water used, the time of use, the pattern of use, the differences in the conditions of service, the costs of service, and the actual difference in the situation of the consumers for the furnishing of service.” Reply at 2 (citing *Grindstone Butte Mutual Canal Company v. Idaho Public Utilities Commission*, 102 Idaho 175, 179, 627 P.2d 804, 808 (1981)).

The bottom line is that the Resort proposed a rate design that mirrors that utilized by United Water. The proportional allocation amongst the varying meter sizes as implemented and approved for United Water would be applied to rates in this case. Stoneridge Resort proposed a rate design as follows:

Stoneridge Resort’s Proposed Rates

¾” Meter	\$28.50
1” Meter	\$37.34
1 ½” Meter	\$60.71
2” Meter	\$87.78
4” Meter	\$256.22
6” Meter	\$493.34
All Commodity	\$0.75/1,000 gallons

This rate design was apparently based upon the revenue requirement of \$132,349, proposed by Staff’s original comments. These proposed numbers would have to be increased proportionately to meet the revised revenue requirement of \$140,352.

Commission Findings: We find that a varying customer charge based on the proportional size of the meter is a just and reasonable methodology for establishing the monthly customer charge. Although there is some appeal to the rate design offered by the Company, and to a larger extent that offered by the intervenor, Stoneridge Resort, we find that both of those proposals weight the rate design too heavily upon the residential customer class by shifting too much into the base monthly charge for a 3/4-inch meter, and not escalating the charge enough for larger meters/service. The varying customer charge based upon meter size is a reasonable approximation in this case for the fixed costs associated with serving that customer, which we find to be reasonable in setting the customer charge. We further find, based upon the record in this case, that a base customer charge for a 3/4-inch meter of \$24, with a commodity charge of \$0.79 per 1,000 gallons of use is a just, reasonable, and fair rate design to collect the Company's authorized revenue requirement. The proportional increase in customer charge based upon meter size as shown in Attachment A to this Order is hereby approved and adopted.

B. State Drinking Water Revolving Loan Recovery/Repayment (Phase I and Phase II)

1. **Phase I** – The Company has two outstanding loans with DEQ for improvements to its water system (as previously described in the Background section and referenced in the Rate Base section). One loan, referred to as the Phase I loan, financed the cost of the interconnection between the Company's water system and the HVR water system. The Company received approval for this loan in Case No. SWS-W-03-1, Order No. 29320. The Company completed the interconnection between the two systems and HVR is now receiving its water supply from the Company. The Phase I loan improvements were completed for a cost of \$278,000 and the Phase I loan was closed in the amount of \$278,000 with a 20-year term for amortization. The Commission determined in Order No. 29320 that the customers of HVR would pay the cost of the Phase I loan, up to \$275,000 as a surcharge applied to only HVR customers. Staff has audited the Company's cost to complete the interconnection and has determined that \$278,000 is an appropriate cost for the interconnection improvements and that this amount should be the total of the surcharges to the HVR customers. Therefore, Staff recommended that the Commission grant the Company final approval to collect \$278,000, an increase of \$3,000 more than previously approved, as a surcharge from the HVR customers.

One of DEQ's loan requirements is that the debtor must collect 20% of an annual payment for the first five years of the loan. This premium is held in a reserve account and at the

end of the loan amortization, will be used to make the last annual payment on the loan. The annual interest and principal payment on the Phase I loan is \$17,002 and the premium payment for reserve for the first five years is \$3,400. Staff recommended that the HVR customers pay a surcharge on the Phase I loan for the first five years in the amount of \$16.83 per month, and then pay a surcharge for years 6 through 19 in the amount of \$14.03. If this surcharge is collected in this manner, the Company will be able to cash flow the loan payments to DEQ from the revenues collected from the customers.

<u>Schedule of Surcharge Amount for HVR Customers for Phase I Loan</u>		
Principal Loan		
	Loan Amount	\$278,000
	Interest Rate	2%
	Loan Term	20 years
	Number of Customers	101
	Annual Amortization Payment	\$17,002
	Annual Payment per Customer	\$168.34
	Monthly Payment per Customer	\$14.03
Reserve Premium		
	Total Reserve Requirement	\$17,002
	Term for Collection	5 years
	Annual Reserve Amount	\$3,400
	Annual Reserve Payment Per Cust.	\$33.67
	Monthly Reserve Payment per Cust.	\$2.81
	Total Monthly Surcharge per Customer	\$16.83

2. **Phase II** – The second loan financed improvements to the Company’s wells and water production system. This loan is referred to as the Phase II loan and is in the amount of \$160,457. Staff audited the Company’s costs that were financed with this loan and is satisfied that this is the correct amount for those costs. The improvements from the proceeds of this loan

are source of supply, backbone system improvements that will benefit everyone on the system, and therefore the cost of this loan should be spread over all the customers of the system pursuant to the Commission's prior Orders on this matter.

Commission Findings: We authorize collection of the Phase I loan amount, used for interconnection, from the Happy Valley Ranchos customers in the amount of \$278,000. This amount exceeds the previously approved loan amount by \$3,000, which additional amount we find to be just, reasonable, and necessary. We find that the HVR customers should pay a surcharge on the Phase I loan for the first five years in the amount of \$16.83 per month, and then pay a surcharge for years 6 through 19 in the amount of \$14.03. This is consistent with the Commission's prior Orders that authorized the loans and the expenditures necessary for the interconnection of the system. See Order No. 29320, Order No. 29507, and Order No. 29719.

Additionally, we find that the Phase II loan be included in rate base and collected from all customers. To spread the cost of the loan to all customers, the improvements financed by this loan are included in rate base, and the loan is included in the weighted cost of capital. As the Company collects its revenue requirement through rates, the cost will be collected from each customer. This treatment is consistent with the Commission's previous Orders regarding Phase I and Phase II recovery. See Order No. 29507 and Order No. 29719.

We recognize that imposition of the Phase I surcharge, along with the increase in rates resulting from this rate case, results in a substantial increase to the residents of Happy Valley Ranchos. In reviewing the comments of many of the HVR customers, it appears that most are very satisfied with the improved quality of their water and service, and that a surcharge for the costs of interconnection, close to the amount ordered by this Order, was expected. What appears to have not been expected was the accompanying increase in rates resulting from this rate case. Many have voiced concern about the cost of the new backup well, and whether the Company disclosed this or not at the time of the merger. This matter was dealt with in a previous Order where the Commission authorized the increased costs as necessary to complete the projects as originally proposed and stating that the increases were the result of either unforeseen circumstances or increased project requirements. Order No. 29719.

When the contractor proceeded to perform the backup well replacement, significant problems were found. After great effort the existing backup pump was removed from the well casing. Further investigation determined that at some time in the past the well screen was moved vertically and subsequently

became lodged within the well casing. Project personnel then determined that the well has collapsed at some depth.

The project engineer has explored a number of alternatives to rehabilitate the existing well. The best possible result is a well with insufficient capacity to meet the Company's backup needs. The project engineer has analyzed a number of alternatives to meet the backup well requirements mandated by the DEQ. The solution recommended by the Company's engineer and supported by DEQ is to construct a new well and pump at the backup well minimum required capacity of 600 gallons per minute (gpm). The Company will maintain the existing backup well casing for future possible incremental capacity expansion. The estimated maximum capacity of the existing failed backup well is approximately 400 gpm.

In approving the increased loan amounts we found, "that the proposed transaction is consistent with the public interest and Stoneridge Utilities' proper performance of its duties as a public utility." Order No. 29719 at 4.

C. Other Proposed Tariff Changes

1. **Seasonal Disconnection/Reconnection Fee** – The Company requested a significant change in the reconnection charge for shutoffs. The current charge when service has been disconnected for 30 days or less is \$14 for reconnection during office hours and \$28 after 5:00 p.m. The charge for reconnection of service disconnected for more than 30 days is \$50 during office hours and \$64 after office hours. The Company's proposed reconnect fee is \$278, regardless of length of time disconnected, which is approximately equal to six months' base residential charge plus \$50 for connection during office hours with a minimum 24-hour advance request for service. The after office hours rate would be \$328, which is equal to six months' base rate plus \$100 with a minimum of 48-hour notice.

The Company provided the number of seasonal shutoffs by calendar year as follows: 12 in 2003, 12 in 2004, 10 in 2005 and 8 in 2006. See Staff Exhibit No. 113. The Company did not state the duration of time for each shutoff. In 2006, the Company disconnected four customers for non-payment. Two of those customers were reconnected within the same year. Staff initially recommended there is not a significant enough number of seasonal shutoffs to justify a differential between seasonal and non-seasonal reconnection charges, and if six months' revenue was lost for each, the lost revenue would be an average of only \$890 per year. Staff stated it did not believe that this loss would justify the proposed change in reconnect cost.

Given that the existing reconnect fee includes an element intended to discourage seasonal disconnect and that costs have increased since those fees were set, Staff proposed a modest increase proportionately consistent with the increase of the base customer charge, which would be \$18.50 for those reconnecting within 30 days (\$37 after hours).

Staff, in its original comments, proposed a reconnection fee of \$65 for customers who are disconnected for periods greater than 30 days (\$83.50 after hours). Staff believes that this fee is necessary to discourage seasonal disconnections, which undermine the Company's revenue and therefore its ability to maintain facilities capable of delivering the peak water demand. Because commercial customers had not historically disconnected, Staff was focused on the residential customers but is now aware that larger customers, specifically referring to the golf course, might disconnect for the winter season as stated in the Company's reply. For the same reasons that Staff proposed a varying customer charge based on meter size, Staff believes that the reconnection charge should also be proportional to the flow area of the meter, or proportional to the customer charge. The after-hours differential should be \$25 higher than the charge for normal working hours. This would result in the following reconnection charge for customers reconnecting after 30 days: 3/4-inch meter – \$65; 2-inch meter – \$462; 6-inch meter – \$4,160. These rates are summarized in Attachment B to Staff's reply comments.

Commission Findings: We find that a reconnection fee should be established with the following charges: For those reconnecting within 30 days (including day 30) of disconnection – \$18.50; for those reconnecting 31 days and over the charge will correspond to that customer's varying customer charge based on meter size. For example: over 30 days – 3/4-inch meter – \$65; 2-inch meter – \$462; 6-inch meter – \$4,160. We approve and adopt the reconnection charges for those disconnected over 30 days as shown in Attachment A to this Order. Additionally, we find that an additional \$25 may be charged for after-hours connection.

The "within 30 days" charge is intended for those who may be periodically disconnected for various reasons such as non-payment, and then subsequently reconnected. The "over 30 days" charge is intended for seasonal disconnections. The reconnection charge for seasonal disconnections is intended to properly compensate the Company for the fixed costs of the system, which exist regardless of the amount of water used. This logically follows the customer charge, as that was intended to approximate the customers' fixed costs. Customers

with larger meters who seasonally disconnect must pay the corresponding charge, and will not be allowed to disconnect and reconnect every month in order to pay the lower fee.

2. **Modifications to General Rules and Regulations** – The Company’s proposed changes to the General Rules and Regulations along with Staff’s modifications of those changes were presented in Staff Exhibit No. 112. The underlying factors Staff relied on in modifying the Company’s proposed changes are discussed below, organized by the paragraph numbers in the proposed rules. Company changes to the rules not addressed below were found to be acceptable by Staff.

- 2.4.1 The changes reflect the fact that the Company does not need the ability to do any more than isolate the meter set from the customer side plumbing and that the customer under some circumstances may need to isolate the customer side using the valve(s) in the meter set.
- 2.17(B) Where multiple residences are served off of one meter, the minimum charge cannot exceed the charge that will result from dividing the capacity of the actual meter by the capacity of the standard residential meter (3/4 inch) and multiplying the result by the minimum charge associated with the standard residential meter, where the capacity of a meter is determined by the square of the meter orifice radius times pi.
- 2.17 (D) Given the creation of an irrigation class, all firm service irrigation services must be treated equally.
- 2.1.7 (F) Rewritten to clarify that residential service takes priority over all other services.
- 3.2 Added the requirement that the standard application form used be reviewed by the PUC.
- 6.4 Revised to reflect pro-rata billing of the minimum charge for periods of less than one month.
- 7.4 Revised to reflect a requirement for the Company to test meters for accuracy at the Customer’s request for no charge, once per year.
- 8.3 Revised to agree with 2.4.1 above.
- 9.3 Revised to reflect that the Company may choose to provide payment arrangements to a Customer for payment of a hookup fee.

- 11.4 The change of ownership part was eliminated since the application was either unclear or does not apply.

Commission Findings: We find the General Rules and Regulations tariff changes as proposed by the Company and modified by Staff to be reasonable. We approve the changes as presented in Staff Exhibit No. 112.

3. **Hookup Charge** – The Company has proposed a hookup fee increase from \$925 to \$1,200 based upon the actual amount needed to perform the hookup. This is consistent with the hookup fees and costs to complete the hookup that Staff has seen at other utilities in the state and in the Panhandle Region. Staff agreed with the proposed hookup fee and recommended the same.

Commission Findings: We find the increased hookup fee from \$925 to \$1,200 to be based on actual costs, to be relatively consistent with other utilities in that region, and to be reasonable.

4. **Compliance with Utility Customer Relations Rules** – A review of Stoneridge Water Company’s forms, notices and billing statement show the Company complies with all the Utility Customer Relations Rules (IDAPA 31.21.01000 *et seq.*) and Utility Customer Information Rules (IDAPA 31.21.02.000 *et seq.*), with the exception of the Customer Summary of Rules Notice. The Customer Summary of Rules Notice is to be mailed annually to all customers of the water system, informing them of the Company’s policies for disconnection, payment arrangement options and instructions on filing complaints. Staff recommended that the Company make the changes to the Summary of Rules Notice when it updates the tariff as part of this rate case. The document should be updated to reflect the cost of connection charges, reconnect fees, and removal of the statement requesting the “nature of the illness” as part of the Medical Certificate.

Commission Findings: We find that the changes proposed are needed to comply with our rules, and the Company should make the changes to its Customer Summary of Rules Notice following this rate case and mail the summary annually to all customers.

ULTIMATE FINDINGS OF FACT AND CONCLUSIONS OF LAW

Stoneridge Water Company is a water corporation providing water service to the public within the State of Idaho, *Idaho Code* §§ 61-124, 61-125, and is operating as a public utility. *Idaho Code* § 61-129.

The Commission has jurisdiction over this matter as authorized by Title 61 of the Idaho Code, and more particularly *Idaho Code* §§ 61-501, 61-502, 61-503, 61-520, 61-523.

As set out in the body of this Order, the Commission finds that the existing rates are unreasonable. The approved rates set forth in this Order are just and reasonable. *Idaho Code* § 61-622.

ORDER

IT IS HEREBY ORDERED that the Company's rate base be established at \$103,627, with a 12% rate of return, annual expenses of \$116,073, and a revenue requirement of \$140,352, as stated above.

IT IS FURTHER ORDERED that new rates are approved establishing a monthly customer charge based upon meter size, as well as a monthly commodity usage charge. The base customer charge for a 3/4-inch meter is \$24 per month, with a commodity charge of \$0.79 per 1,000 gallons of use for all customers. The golf course's commodity charge is \$0.71 per 1,000 gallons, reflecting a 10% discount because of its interruptible, off-peak usage capabilities. The proportional increase in customer charge based upon meter size as shown in Attachment A to this Order is hereby approved and adopted.

IT IS FURTHER ORDERED that collection of the Phase I loan amount from the Happy Valley Ranchos customers in the amount of \$278,000 is hereby approved. The HVR customers shall pay a surcharge on the Phase I loan for the first five years in the amount of \$16.83 per month, and then pay a surcharge for years 6 through 19 in the amount of \$14.03.

IT IS FURTHER ORDERED that the Phase II loan amount be included in rate base and the weighted cost of capital and thereby collected from all customers. The Company was previously directed to file the final loan documents with the Commission under Case No. SWS-W-04-01. Order No. 29719.

IT IS FURTHER ORDERED that a reconnection fee for those reconnecting within 30 days (including day 30) of disconnection be \$18.50, and for those reconnecting 31 days and over the charge will correspond to that customer's varying customer charge based on meter size.

We approve and adopt the reconnection charges for those disconnected over 30 days as stated in Attachment A to this Order. An additional \$25 may be charged for after-hours reconnection.

IT IS FURTHER ORDERED that the General Rules and Regulations tariff changes proposed by the Company and modified by Staff, as shown in Staff Exhibit No. 112, are approved. The increased hookup fee for new service, from \$925 to \$1,200, is approved. The Company shall also make the changes to its Customer Summary of Rules Notice as recommended above.

IT IS FURTHER ORDERED that the new rates, rules, and regulations are effective for service rendered on and after July 2, 2007. The Company shall submit tariffs conforming to the new rates and changes set out above no later than July 2, 2007.

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 with regard to any matter decided in 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.

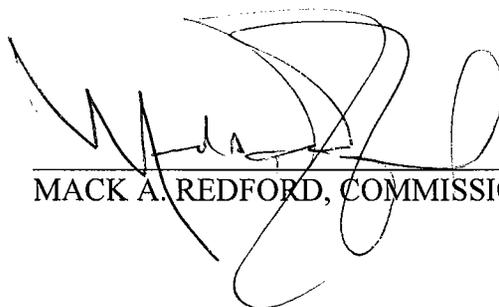
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 19th
day of June 2007.



PAUL KJELLANDER, PRESIDENT

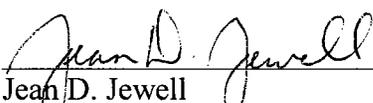


MARSHA H. SMITH, COMMISSIONER



MACK A. REDFORD, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

O:SWS-W-06-01_dw3_final

Meter Size (inches)	Minimum Monthly Customer Charge	Commodity Charge*	Reconnection Charge for disconnection over 30 days
0.75	\$24.00	\$0.79/1,000 g.	\$65.00
1.00	\$42.67	\$0.79/1,000 g.	\$116.00
1.50	\$96.00	\$0.79/1,000 g.	\$260.00
2.00	\$170.67	\$0.79/1,000 g.	\$462.00
2.50	\$266.67	\$0.79/1,000 g.	\$722.00
3.00	\$384.00	\$0.79/1,000 g.	\$1,040.00
4.00	\$682.67	\$0.79/1,000 g.	\$1,849.00
6.00	\$1,536.00	\$0.79/1,000 g.*	\$4,160.00

* The Golf Course's commodity charge is \$0.71/1,000 gallons, reflecting a 10% discount because of its interruptible, off-peak usage capabilities.

ATTACHMENT A
CASE NO. SWS-W-06-1
ORDER NO. 30342