

SCOTT WOODBURY
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0320
IDAHO BAR NO. 1895

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IDAHO PUBLIC
UTILITIES COMMISSION

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5983

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION OF)
UNITED WATER IDAHO INC. TO AMEND ITS) CASE NO. UWI-W-04-1
RULES AND REGULATIONS TO IMPLEMENT)
A BUDGET BILL OPTION) COMMENTS OF THE
) COMMISSION STAFF
)
_____)**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Application, Notice of Modified Procedure and Notice of Comment/Protest Deadline issued on February 10, 2004, submits the following comments.

On February 3, 2004, United Water Idaho Inc. (United Water; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting authority to amend its Rules and Regulations to establish a "Budget Bill" payment program for its 65,000 residential customers who seek levelized monthly payments to meet their annual water bill obligation. United Water customers currently receive six bi-monthly bills, including two summer bills that are based on a rate 25 percent higher than the Company's winter rate.

Some customers have asked for a less burdensome way to meet their high summer bill obligations which create a financial hardship for them. Paying a set amount each month throughout the year offers relief to those whose budgets do not accommodate wide fluctuations in monthly expenses. A level pay option also offers those customers who want the convenience of an

automatic payment the security of knowing what amount will be deducted from their bank account each month.

In order to deal with similar customer concerns with energy bills, the Commission authorized energy utilities to offer budget or level pay programs. Although United Water is required to enter into payment arrangements with customers as set forth by the Commission's Utilities Customer Relations Rules [IDAPA.31.21.01], Rule 313, the Company was unable to offer a 12-month levelized payment program previously due to billing system limitations. Staff recommends that United Water be directed to assist customers with a level-pay program now that its billing system can accommodate one.

Although meters will continue to be read on a bi-monthly basis, United Water will send monthly statements to Budget Bill participants. Monthly statements can be used to remind customers that peak summer rates are in effect and encourage conservation earlier than bi-monthly statements do. Staff recognizes that bi-monthly billings fail to provide a timely "price signal" of the higher summer rate. Statements which include meter readings will continue to provide customers not only with the summer rate information, but also comparative consumption history as it currently does. United Water adds a reminder message to its March and April bill statements of the upcoming higher summer water rate. The Company will continue the bill message through the summer months as the bill message space allows.

United Water's Budget Bill program proposal is different from the energy utilities in that it proposes to also offer a Budget Bill program to new residents based upon the premises usage history, whether or not the current customer resided at the premises the past 12 months. If a new resident seeks to sign up for the Budget Bill program, United Water will use the consumption history from the prior resident to calculate the budget bill amount as well as take into account water usage at similar homes in the subdivision and review multiple years of water history at the premises before setting a budget bill amount for the current customer. If a new resident requests budget billing, the customer will be counseled that the budget amount is strictly an estimate. Because the consumption history applies to the previous customer's account, the new customer's bill will not contain any comparative usage data. According to United Water, the customer will be informed of the consumption history used to calculate the budget bill amount and will have the option to receive the consumption history for the premises at that time. Staff is reluctant to support the Company's plan to set a Budget Bill amount based upon a criteria other than customer's own usage given the

fact that the watering habits of one individual has little to do with another's. Because United Water cannot provide the new resident on-going historical comparative usage on statements to enable the customer to determine whether his or her own usage is in line with that of the prior customer's, Staff cannot support a budget bill based upon premises usage and therefore does not recommend "Budget Bill" for any customer who has not lived at the current residence for at least 12 months. Staff recommends the Company's proposed tariff be modified as shown in Attachment A to clarify that Budget Bill amounts will be based upon a customer's 12-month historical usage at the premises.

To be eligible for United Water's Budget Bill Program, the customer's account must not be in arrears and the Company must have a minimum of 12 months premises usage history (6 bi-monthly actual historical bills). United Water requires any amount reflected in a past due notice to be paid before the customer is eligible for the Budget Bill program. The utility believes all customers will be treated consistently if this criteria is used. Similar programs for Idaho Power and Utah Power limit participation to customers with no past due balance. Avista Utilities and Intermountain Gas Company allow customers to have a past due balance subject to some restrictions. Staff accepts United Water's account eligibility criteria, but again recommends that actual customer premises consumption be used to establish Budget Bill amounts.

The Company has not specified how it will monitor participating customers' usage to determine whether actual usage differs substantially from estimated usage. Staff recommends that usage be tracked throughout the summer months. If actual usage changes significantly from historical usage, the Company may need to adjust the monthly Budget Bill amount. Energy utilities monitor level pay customers' usage and revise level pay amounts if necessary so that large positive or negative balances do not accumulate over the course of the level pay plan year. Depending on the utility, variation in usage of 10-50% of normal triggers review of the customers' accounts, with the customers' level pay amount adjusted if appropriate. For United Water, leaks or unintentional diversion of water into a dual irrigation system are likely to result in unusually high bills. At a minimum, Staff recommends that usage in excess of 25% of historical usage during the summer months be reviewed by the Company. The Company can determine, after consulting with the customer if necessary, whether the level pay amount should be adjusted. Staff suggests this change in order to clarify that Budget Bill amounts should be revised due to significant changes in rates or usage. This will prevent the customer's usage from significantly increasing without notice and it

will avoid the shock of a much larger adjustment later. Staff also recommends that the Company's proposed tariff be modified as shown in Attachment A.

United Water will reconcile all Budget Bill accounts annually at the customer's anniversary date. As long as a negative balance is less than 25% of the estimated annual bill for the next 12-month period, it will be rolled forward into the calculation of the new Budget Bill amount. The Company may request that a large negative balance be paid in full. If customers have a large negative balance at the annual review, usage has increased substantially from historical patterns. United Water does not want the Budget Bill program to be perceived as a mechanism that encourages customers to increase usage. Thus, customers with large negative balances should "true-up" to zero before being eligible for continuation in the program. This requirement would add to a conservation message and Staff does not object to it. Staff also believes that if the Company monitors usage and adjusts the level pay amount if necessary, there will be relatively few instances where large negative balances accrue.

The Company's proposal includes provisions for removal from the program for failure to timely pay the agreed budget bill amount. The trigger point for removal will be when the customer fails to pay the budget bill amount by the third month. The customer will be dropped from the Budget Bill program and the normal collection cycle will begin on the amount owed. This is consistent with how other utilities handle collections when a customer is dropped from level pay for failure to pay a level pay amount over time.

The Commission, a decade ago, set summer water rates 25% higher than winter rates in order to send customers a strong conservation price signal to encourage water conservation during the summer months when the peak water demand has to be met. Outside watering is the main driving force causing additional plant to be built in order to meet the summer peak demand. Building additional plant places upward pressure on rates. Having a budget bill option has the potential to mute the conservation price signal because customers pay a set amount for each of the 12 months regardless of water consumption. Although a level pay program can mute the price signal sent to customers, Staff believes, in this instance, the price signal may actually be strengthened because customers will be billed monthly during the summer under the Budget Bill program. While each monthly bill will be less than a bi-monthly bill, summer consumption information will still be provided on a bi-monthly basis and the company can remind customers monthly that rates are higher during the summer.

The implementation of a Budget Bill plan provides an opportunity to gather information about how being on a level pay plan may affect water consumption. Staff recommends that United Water be required to track water consumption for those on a Budget Bill program in order to compare current usage with the customer's usage prior to participating in the program. This data will allow us to determine whether the conservation price signal is lost when monthly billing amounts remain constant for 12 months.

The Budget Bill program's annual cost projection is estimated to be in the range of \$72,000 assuming 15% of customers participate in the program. The estimate is based on additional costs associated with bill preparation and processing payments. United Water requests an accounting order permitting deferral of the estimated cost associated with implementation of the program. United Water expects to seek recovery of the deferral in its next general rate case, subject to audit and review for reasonableness. In the absence of deferral, United claims it will likely defer implementation of the Budget Bill program to coincide with the next general rate case.

The estimated \$72,000 cost is not a one-time expense for implementation of the program. Rather, it represents the estimated annual cost of running the program, assuming a 15% participation level. The projected cost of the program is less than \$1.00 per customer annually. The actual cost of the Budget Bill Program is not known and measurable at this time. It is unlikely in the first year of the program that 15% of customers will participate. Staff believes it is reasonable for the Company to expect this level of participation, but it will take time for customers to become aware of the program. If United Water files a general rate case within the year as has been suggested, costs associated with the program will be one of many expenses considered in setting rates. In Staff's opinion, the estimated annual expenditures for this program are not appropriate for deferral. The Company should implement the program with the expenses booked as such. All the associated costs and benefits will need to be explored and reflected in the annual rate case expense review. Among the expected benefits of a Budget Bill program is that the Company will receive a higher than usual revenue stream during the winter months when revenue is typically at its lowest.

CUSTOMER COMMENTS

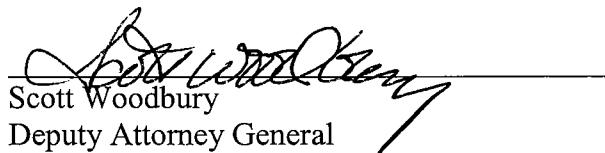
As of February 27, 2004, sixteen customers had filed written comments. Those comments are a part of the official case record for the Commission's review and consideration prior to rendering a decision. Briefly, five customers supported United Water's plan. Three commented

about issues outside of the Company's proposal. The majority of those commenting expressed concern and/or objection to the \$72,000 cost for implementing the program.

Staff recommends that the Commission:

- 1) Authorize United Water to offer a Budget Bill program to customers who have had service at their current location for at least 12 months and do not have a past due balance on their account;
- 2) Deny the Company's request to allow the use of a prior customer's consumption history at a premises in order to establish a Budget Bill amount for the current resident;
- 3) Require United Water to track program participants' consumption in order to identify changes in water consumption;
- 4) Require United Water to monitor participating customers usage throughout the summer. If usage is significantly different from historical consumption (plus or minus 25%), Budget Bill amounts should be reviewed with the customer and adjusted as necessary;
- 5) Deny United Water's request for an accounting order permitting deferral of \$72,000 program implementation costs; and
- 6) Approve the Company's proposed tariff with Staff's modifications as reflected in Attachment A.

Respectively submitted this 3rd day of March 2004.


Scott Woodbury
Deputy Attorney General

Technical Staff: Marge Maxwell
Rick Sterling

SW:/umisc/comments/uwiw04.lswmmrps

UNITED WATER IDAHO BUDGET BILL PROGRAM

STAFF PROPOSED REVISION—LEGISLATIVE VERSION

41. Residential Budget Bill Program: A Budget Bill Program is available to Residential Customers, as defined in paragraph 51 of these Rules, desiring to levelize payments for water service. A residential customer may enroll in the Budget Bill Program at any time during the year. To be eligible for the Budget Bill Program, the customer ~~account must not be in arrears and the Company~~ must have a minimum of 12 consecutive months of usage history service at the premises current location and have no past due balance owing at the time of enrollment...

Customers with a negative (underpaid) balance in their Budget Bill Program account at the time of recalculation will have new monthly Budget Bill Program charges equal to the recalculated Budget Bill amount plus one-twelfth of the negative balance. At the customer's option, a negative balance may be paid in full and disregarded for purposes of calculating the next period's Budget Bill amount. If the negative balance exceeds 25% of the estimated annual bill for the ensuing annual period, the Company may request that the negative balance be paid in full. Customers with a positive balance exceeding \$25 in their Budget Bill Program account at the time of recalculation may be refunded at the customer's request. If no request for refund is made, the monthly Budget Bill Program charge will be equal to the recalculated Budget Bill Program amount reduced by one-twelfth of the positive balance. ~~Upon the customer's request, a positive balance for one Budget Bill Program water service account may be transferred to the balance of another Budget Bill Program water service account.~~ Upon termination of the Budget Bill Program agreement, after all charges for services are paid, positive balances will be refunded at the customer's option.

Estimates of future costs based on historical charges furnished by the Company with such Budget Bill Program should not be construed by the customer as a guarantee that the total actual charges will not exceed the estimates. In the event of a significant change in rates for water service or substantial deviation from the customer's historical water consumption, ~~the Company, because of rate changes, weather extremes or other significant circumstances,~~ may at any time submit a revised estimate to the customer and require that the customer pay the revised monthly Budget Bill installment amount as a condition of continuation in the Budget Bill Program.

The Budget Bill amount will be billed monthly. Once established, the Budget Bill Program will remain in effect from year to year until the customer notifies the Company not less than 30 days prior to the desired date of cancellation or unless the customer fails to pay the agreed upon amounts in a timely manner.

STAFF PROPOSED REVISION—CLEAN COPY

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 3RD DAY OF MARCH 2004, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. UWI-W-04-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

GREGORY P WYATT
UNITED WATER IDAHO INC
PO BOX 190420
BOISE ID 83719-0420

DEAN J MILLER
McDEVITT & MILLER LLP
PO BOX 2564
BOISE ID 83701-2564



SECRETARY