

## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION	)	
OF UNITED WATER IDAHO INC. FOR	)	CASE NO. UWI-W-06-02
AUTHORITY TO INCREASE ITS RATES	)	
AND CHARGES FOR WATER SERVICE IN	)	
THE STATE OF IDAHO	)	ORDER NO. 30104
	)	

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On February 10, 2006, United Water Idaho Inc. filed an Application with the Commission requesting authority to increase its rates and charges for water service in the State of Idaho. The Application requested an average increase in overall rates of 17.91% that equates to an annual revenue increase of approximately \$6 million.

On May 22, 2006, the parties executed a Stipulation agreeing to settle all issues in the case. As set out in greater detail below, the parties agreed in the Stipulation that United Water should be allowed to increase its annual revenues by \$3.633 million annually. The parties recommended that the additional amount be collected by a uniform increase to rates and charges of approximately 10.98%. On May 25, 2006, the Commission issued a Notice of Settlement and invited public comment and testimony on the settlement. A hearing to consider the settlement was held on July 12, 2006.

Based upon our review of the initial Application, the settlement Stipulation, the testimony of the parties and the public comments, the Commission approves the settlement Stipulation.

### THE ORIGINAL APPLICATION

United Water's original Application stated that the primary purpose of this proceeding is to update the Company's ratemaking calculations to conform to the requirements of Order No. 29838 issued on August 3, 2005, particularly with regard to the 13-month average test year methodology approved by the Commission. Application at 4-5. The Company alleged that since the entry of the final Order in its last rate case, Order No. 29838 in Case No. UWI-W-04-4, it has been unable to earn its allowed return on investment.

The Application requested a revenue increase of \$5,921,691 resulting in a uniform percentage increase in rates of 17.97%. Application at 2. The Company proposed an increase in rate base of \$14,190,462 (from \$126,824,685 to \$141,015,147), and increased operating costs of \$2,764,530 (from \$20,144,532 to \$22,909,062). Wyatt Direct at 4-5. The Application stated that

the revenue produced by current rates results in a rate of return of 5.929% based on a test year ending April 30, 2006. Application at 3. The proposed increase would provide a rate of return of 8.427%. Application at 2. The Company stated that the two fundamental purposes of the rate increase filing are to capture completed investments using a 13-month average rate base, and a \$1.7 million increase in the Company's pension expense obligation under ERISA. Wyatt Direct at 4.

The Company requested, because of the relatively short time since its last rate case when the Commission examined these issues in detail, that the Commission apply a Stipulation regarding the overall weighted cost of capital approved in the previous case. Nor did the Company present a new cost of service study or a separate cost of service witness because costs of service and rate design issues were reviewed in the last case. The Company proposed a uniform percentage increase to rates without any change in rate design. The Company filed the direct testimony of its witnesses as well as their exhibits and workpapers with the Application.

#### **COURSE OF PROCEEDINGS**

On March 3, 2006, the Commission issued a Notice of Application, establishing the deadline for parties to intervene in the case, and suspending the Company's proposed March 13, 2006 effective date for new rates. The only party to petition to intervene was Boise Residents Against Commercial Exploitation (BRACE). After being granted intervention BRACE subsequently withdrew its Petition. On March 29, 2006, the Commission issued a notice setting a technical hearing date for July 12-14, as well as a Staff prefile deadline of June 2, and a rebuttal deadline of June 27, 2006.

On May 15, 2006, the remaining parties, Staff and the Company, met for settlement discussions. As a result of those discussions the parties reached agreement on the issues in this case and entered into a settlement Stipulation. The Stipulation and a Motion requesting that the Commission approve the Stipulation in its entirety were filed with the Commission on May 22, 2006. On May 25, 2006, the Commission issued Order No. 30048 requesting public comment on the settlement Stipulation, setting a public hearing date to take public testimony regarding the settlement Stipulation, and retaining the technical hearing date of July 12, 2006, to take testimony from the parties regarding the Stipulation.

## THE SETTLEMENT STIPULATION

On May 22, 2006, the parties executed a settlement Stipulation agreeing to settle all issues in the rate case. The Stipulation provides that United Water should be allowed to increase its annual revenues to recover \$3.633 million. Stipulation at ¶ 6. The parties agreed that the additional annual revenue should be collected by a uniform increase to rates and charges (except incidental service charges) of approximately 10.98%. Stipulation at ¶ 7. The parties agreed that the Stipulation regarding the overall weighted cost of capital and rate of return recently reviewed and set by the Commission in Case No. UWI-W-04-4 was appropriate for use in this case. Stipulation at ¶ 6. In addition the Stipulation provides that: (a) the Company will continue its current method to account for power costs as affected by Idaho Power Company's annual rate adjustment (the Idaho Power PCA rate), the Company may amortize over three years the approximate current balance of \$79,000 for purchased power expense and further deferral will reflect the PCA rate effective as of June 1, 2006; (b) United Water may continue to amortize deferrals for power expense, rate case expense, relocation expense, tank painting expense, water quality testing expense, and several other minor amortizations approved in Order No. 29838. United Water may begin to amortize the tank painting expense related to Federal Reservoir of \$150,000 over a 20-year period; and (c) the Company may amortize over a four-year period deferred rate case expense related to Case No. UWI-W-04-4, which was not addressed by Order No. 29838 and deferred rate case expense for this case, Case No. UWI-W-06-2. *Id.*

The parties assert that the Stipulation represents a reasonable compromise of their respective positions in this case, and they urge the Commission to approve the Stipulation in its entirety. The parties' Motion states that the Stipulation is in the public interest and that all of its terms and conditions are fair, just and reasonable. Motion at 2.

## THE TECHNICAL HEARING

The Commission held its technical hearing on July 12, 2006. Both the Commission Staff and the Company presented testimony in support of the Stipulation.

1. The Staff. The Utilities Division Administrator, Randy Lobb, recommended the Commission adopt the Stipulation. He testified that Staff conducted a comprehensive audit of test year results and concluded that the proposed settlement is in the public interest and should be approved by the Commission. Mr. Lobb testified that Staff's primary consideration leading to the Stipulation was a belief that the settlement eliminates the risk of an even higher revenue

requirement, and thus results in a smaller rate increase than might be achieved through hearing. Staff concluded that much of the requested increase results from compliance with the Commission Order issued in the last United Water rate case, primarily the use of the 13-month average rate base methodology and the Commission's method for calculating pension expense, and is associated with undisputed known and measurable test year adjustments. After a thorough audit and investigation, Staff concluded that the potential for additional, justifiable revenue requirement reducing adjustments was limited, given the exhaustive review completed in the last general rate case less than one year ago.

2. United Water. The Company's General Manager, Gregory Wyatt, also testified in support of the Stipulation. Like Staff, Mr. Wyatt testified that the majority of the increase was the inevitable result of changes in ratemaking practices as directed by the Commission in the last case. He stated that the Company estimates that more than 75% of the settlement amount can be attributed to updating rate base using the 13-month average methodology and accounting for a significant pension contribution as directed by the Commission. The remaining increase amount can be attributed to additional investments and operating costs since the prior case.

The Commission asked Mr. Wyatt to discuss generally the Company's operations and issues that it will face in the future. He discussed several topics including the Company's belief that per capita water usage, especially for new customers who have alternative irrigation sources, is declining. Mr. Wyatt also discussed monthly billing, a level payment option, and rate design as it pertains to the proportion of the fixed customer charge versus the volumetric charge.

Mr. Wyatt stated that he believes the Stipulation, although recommending a rate increase substantially lower than what the Company was requesting, represents a fair resolution of this case. He stated that settlement discussions were only undertaken after Staff conducted a thorough audit, and the Stipulation is the result of arms-length negotiations between two sophisticated parties, after both had access to all relevant facts.

#### **PUBLIC COMMENTS AND TESTIMONY**

No member of the public appeared to offer testimony at the public hearing held on the evening of July 12, 2006. The Commission did receive approximately 111 written comments from customers of United Water throughout the duration of the case, approximately sixteen of which came in after the proposed settlement. The 16 comments received after publication of Commission's Notice of Settlement all generally opposed any rate increase, but did not

specifically refer to or discuss the settlement. Of the remaining 95 comments the Commission received before the settlement, all opposed any increase in rates for United Water.

The Commission appreciates that numerous United Water customers took time to file written comments with the Commission. It is understandable that no customer wants to see an increase in water rates. Some rate increases are necessary, however, to ensure the Company is financially sound and able to continue to provide clean, safe water to customers. Where United Water makes necessary, prudent investments to enable it to meet customer needs, existing regulatory law and principles require that we allow the Company an opportunity to earn a fair return on those investments.

### **DISCUSSION AND FINDINGS**

At the outset, we note that this is the first time a United Water rate case was resolved by a settlement of the parties. We appreciate that the parties were able to propose a resolution of the disputed issues in this case.

We also note that this case was filed less than a year after the final Order in the Company's last rate case, Case No. UWI-W-04-4, which was highly contentious and appealed by the Company to the Idaho Supreme Court. The Company in its filing of this case did follow the findings in the Order from the last rate case and the principles set forth in that Order, i.e., it used a 13-month average methodology for calculating rate base, chose a test year consisting of six months of actual data and six months projected data and updated prior to case resolution, and used the ERISA method for calculating pension expenses. A major factor in our approval and acceptance of the parties' Stipulation is the fact that approximately 75% of the agreed settlement amount is directly attributable to the application of the 13-month average to determine test year rate base, and the pension expense calculation. Many of the items that were only partially incorporated in the test year for the last rate case are now, due to the passage of time, fully incorporated into the test year.

Based upon our review of the Stipulation, the supporting testimony, the public comments, as well as the record in this case, we find that the terms of the Stipulation are fair, just, and reasonable. IDAPA 31.01.01.274-276, Procedural Rules 274-276. The Stipulation represents a reasonable compromise of the positions held by the parties, and is in the public interest. We find it reasonable to authorize United Water to increase its rates and charges to recover \$3.633 million in additional annual revenue. We further find that it is appropriate in this

case to increase rates by a uniform percentage of approximately 10.98%. We agree with and adopt the terms of the settlement as set forth in the Stipulation of the parties.

We encourage the Company to work with Staff to address the important issues that were mentioned by Mr. Wyatt at the technical hearing, including rate design, cost of service, customer charge versus volumetric charge, monthly billing, and level pay. It may be in both the Company's and the public's interest to explore these issues in a forum outside of a general rate case.

#### **ULTIMATE FINDINGS OF FACT AND CONCLUSIONS OF LAW**

United Water Idaho Inc. is a water corporation providing service to the public within the State of Idaho, is operating as a public utility, and is subject to the Commission's regulation under the Idaho Public Utilities Law. *Idaho Code* §§ 61-124, 61-125, 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, and 61-523.

The Company's present rates do not provide it with an opportunity to earn a fair and reasonable return on its investment. Allowing the Company to increase its rates and charges by \$3.633 million annually will provide it with the opportunity to earn a fair and reasonable return. The 12-month test year ending April 30, 2006, as well as the 13-month average methodology for determining rate base, is the appropriate test year and methodology for use in this proceeding. The Stipulation is in the public interest.

#### **ORDER**

IT IS HEREBY ORDERED that the Motion for Approval of the Stipulation is granted, and by this Order we adopt the terms of the Stipulation as set forth therein. Accordingly, United Water is authorized to recover \$3.633 million in additional annual revenue through a uniform percentage increase in rates of 10.98%. The uniform percentage increase shall apply equally to the customer charge and commodity charge.

IT IS FURTHER ORDERED that the change in rates shall be effective for service rendered on and after August 1, 2006. The Company shall file new rate schedules in conformance with this Order prior to new rates taking effect.

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.*

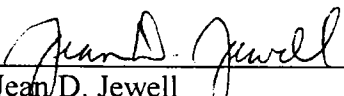
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 24<sup>th</sup> day of July 2006.

  
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PAUL K. ELLANDER, PRESIDENT

  
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MARSHA H. SMITH, COMMISSIONER

  
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DENNIS S. HANSEN, COMMISSIONER

ATTEST:

  
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Jean D. Jewell  
Commission Secretary

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