

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL**

FROM: DONOVAN E. WALKER

DATE: FEBRUARY 27, 2006

**SUBJECT: UNITED WATER'S GENERAL RATE CASE APPLICATION – CASE NO.
UWI-W-06-2**

On February 10, 2006, United Water Idaho Inc. filed a general rate case Application seeking authority to increase its rates an average of 17.91%. If approved the Company's revenues would increase by \$5,921,691 annually. United Water provides service to approximately 79,000 customers, or a population of about 225,000, in Boise and the surrounding areas. The Company's Application includes proposed tariffs and requests an effective date of March 13, 2006.

THE APPLICATION

United Water's Application states 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, and that the primary purpose of this Application is to update the Company's ratemaking calculations to conform to the requirements of Order No. 29838. Application at 4-5. The Company requests expedited treatment of the Application because the primary purpose is to update the ratemaking calculations to conform to the requirements of the last rate case Order. *Id.*

The Application requests a revenue increase of \$5,921,691 resulting in a uniform percentage increase in rates of 17.97%. Application at 2. The Company proposes 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 alleges that the revenue realized under the presently authorized rates produces 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 states that the two biggest

drivers for this rate increase filing are to capture its 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 filed, along with its Application, a Motion for Waiver of Rule 121(e) which requires the filing of cost of capital and cost service studies. The Company states that because of the relatively short amount of time that has passed since its last rate case, where the Commission accepted and approved a settlement regarding the overall weighted cost of capital between Staff and the Company, it is proposing to carry forward the results and methods contained in that settlement. Additionally, because of the short amount of time that has passed since the last rate case where the Company's cost of service and rate design were reviewed, the Company is not presenting a new cost of service study or a separate cost of service witness. The Company proposes a uniform percentage increase to rates without any change in rate design.

STAFF RECOMMENDATION

Because it is not possible to perform the necessary audit and review of the Company's Application prior to the March 13, 2006 effective date of the proposed increase in rates, Staff recommends the Commission suspend that effective date. *Idaho Code* §§ 61-622 and 61-623. Staff recommends that a notice of the Company's Application be issued, with a deadline for intervention of March 21, 2006. Staff does not object to the Company's request for a waiver of the Rule 121(e) requirement regarding the filing of a cost of capital and cost of service study, although Staff will conduct its own calculations relating to the Company's cost of capital and may present testimony for the Commission's consideration.

COMMISSION DECISION

Does the Commission wish to suspend the effective date of March 13, 2006 for the proposed rate increase pursuant to *Idaho Code* §§ 61-622 and 61-623? Does the Commission wish to issue a notice of the Company's Application? Does the Commission wish to approve the Company's Motion for Waiver of Rule 121(e) regarding the filing of cost of capital and cost of service studies?

DONOVAN E. WALKER