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Attorney for the Commission Staff

## **BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF THE APPLICATION OF</b>	)	
<b>UNITED WATER IDAHO INC. TO</b>	)	<b>CASE NO. UWI-W-07-4</b>
<b>IMPLEMENT A PROGRAM OF MONTHLY</b>	)	
<b>BILLING AND FOR RECOVERY OF COSTS</b>	)	
<b>ASSOCIATED THEREWITH.</b>	)	<b>COMMENTS OF THE</b>
	)	<b>COMMISSION STAFF</b>

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**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Weldon B. Stutzman, Deputy Attorney General, and in response to the Notice of Application, Notice of Intervention Deadline and Notice of Modified Procedure issued in Order No. 30446 on September 27, 2007, submits the following comments.

### **BACKGROUND**

On September 17, 2007, United Water Idaho Inc. (United Water; UWI) filed an Application seeking authority to implement a program of monthly billing and for authority to implement rates and charges to recover the increased cost of converting from bi-monthly to monthly billing. The Company requested that its Application be processed by Modified Procedure. With its Order No. 30446, issued on September 27, 2007, the Commission authorized the use of Modified Procedure, established a deadline to petition for intervention, and established a deadline for the submission of comments.

In its Application, United Water states it is in the public interest to convert from bi-monthly to monthly billing for the following reasons: (1) a monthly bill should be easier for customers to budget for and to pay than a bi-monthly bill especially in summer; (2) monthly billing can enhance water conservation and lower bills by sending a more timely price signal to customers and providing more timely information to customers regarding their consumption; (3) monthly billing would reduce the incidence of "high-bill" complaints from customers resulting from bills that reflect charges for two months of usage; and (4) monthly billing would double the number of visits to customer premises by meter readers enabling quicker detection and troubleshooting of leaks or meter problems.

The Company estimates that the additional annual cost of monthly billing will be \$1,125,905, reflecting the cost of additional personnel for meter reading, preparation and mailing of bills on a more frequent basis, increased processing, and administrative expenses. Recovery of this cost represents an overall increase in rates of 3.75%. The Company proposes to apply the increase to the fixed Customer Charge portion of customers' bills. This would raise rates for all customers by approximately \$1.15 per month, bringing the average annual residential customer bill from \$368.61 to \$382.44.

The Company estimates it will take at least five months to hire and train additional personnel and to make the operational adjustments needed to implement monthly billing. It requested an effective date for the proposed tariff changes of May 1, 2008, and consequently an Order approving its request on or before December 1, 2007.

The Company filed with its Application revised tariff sheets showing the proposed changes from bi-monthly to monthly billing. The Company also filed the Direct Testimony of Gregory P. Wyatt that discusses the Company's Application and requests in more detail.

## **DISCUSSION**

Staff agrees with the Company's assertions that monthly billing will provide customers with more timely feedback on their consumption, leading to a reduction in water use. The current billing cycle only provides customers with two billings during the summer irrigation season, which is also the peak season for UWI, and this peak determines the need for additional resources. For many customers, feedback on water usage and its cost arrives with bi-monthly billing only after the peak hot weather of the summer, reducing the effectiveness of any response to the signals provided by the high bills. By providing twice as many bills during the summer season, all users

will be provided feedback in a timeframe that will allow them to make adjustments in usage during this peak season, as well as throughout the year.

More importantly, Staff views monthly billing as a prerequisite to an effective water conservation program. The Commission has previously stated its expectation that the Company implement an ongoing conservation program in Order Nos. 29871 and 30305. The Company's effort will be more effective, and result in more savings per dollar, if customers get the feedback provided by monthly billing than if that feedback is delayed through bi-monthly billing. Staff believes that monthly billing will enhance the effectiveness of all water conservation and demand side activities of the Company, including the higher summer rates approved by the Commission and the future potential for Automated Meter Reading (AMR). The feedback provided by monthly billing should create more interest in the messages provided through the Company's conservation activities, and lead to more customers actually responding to the messages and participating in the Company's conservation programs.

Company witness Greg Wyatt indicated in his initial testimony that the Company expected most customers to reduce consumption as a result of monthly billing, and that a customer's savings from reduced consumption would off set the cost of monthly billing. While Staff agrees that monthly billing will result in some customers reducing water consumption, and that a level of savings large enough to mitigate the cost of monthly billing is not an unreasonable expectation, Staff is not able to definitively confirm this claim.

Monthly billing is recommended by every resource planning guide reviewed by Staff, and all of the conservation experts cited in the studies available to Staff expected some savings from monthly billing, although Staff was not able to find any studies that quantified the impact of converting from a bi-monthly to monthly billing cycle. This is not surprising, as such quantification would require a controlled study that isolated all other factors, which is extremely difficult in a public utility environment involving real customers.

While the savings have not been quantified, there is a strong consensus among water utility planning and conservation experts that monthly billing is preferred. In addition, a strong correlation between monthly billing and effective conservation programs is implied by a study completed by Western Resource Advocates. Western Resource Advocates prepared a detailed study of conservation programs and rates for thirteen water utilities on Colorado's Front Range. Each utility was evaluated based upon a number of criteria and assigned a score on the "Water Meter", a scale developed by the authors to allow comparisons between utilities. Of the companies

evaluated in the study, the Denver water utility scored high for the range of water conservation programs and the amount of funding directed towards conservation. The utility had the highest percentage of its budget directed at conservation, as well as the highest expenditures on a per customer basis. Nonetheless, the average per customer consumption had not declined as much in Denver as in the other highly ranked utilities, and Denver's per customer consumption remained among the highest in the study, even when limited to single-family residential customers. Denver's reduction in average daily consumption for single-family residential customers was at least 22% below the other highly ranked cities, and more than 100% less than the most successful utility, Colorado Springs. Clearly, Denver's conservation efforts were not achieving the same level of overall water savings as the other utilities.

The disappointing reduction in consumption for the Denver utility did not result from lack of success in customer participation. When viewed on a measure penetration basis, Denver was as successful, if not more so, than the other utilities in encouraging the installation of efficient appliances, fixtures and technologies. On an overall basis, however, household consumption did not decline as much in Denver as it did in the other highly ranked utilities. The other utilities simply achieved more overall savings for their investment than did Denver.

Denver was the only utility in the study that used bi-monthly billing rather than monthly billing. While other factors may have contributed to the lower return on conservation expenditures by the Denver utility, the bi-monthly billing cycle was an obvious factor. Moving to monthly billing was one of the priority recommendations the study's authors made for the Denver utility. *Front Range Water Meter: Water Conservation Ratings and Recommendations for 13 Colorado Communities, Western Resource Advocates, 2007.*

Moving to monthly billing was also one of the key recommendations in United Water's Conservation Plan, submitted to the Commission in November of 2006. This Plan, prepared by one of the nations leading experts in water system planning and conservation activities, states:

One difficulty with the current system is that the public outreach occurs in the summer, but the customer may not see a direct connection to his/her actions and his/her water bill, since the water meters are only read every two months. The high bills will arrive in late summer and fall, after the peak has passed and the summer outreach program has finished. In other words the public outreach and water billing are out of phase. A much more logical approach would be to switch to monthly billing so that the connection between conservation actions and reduced water bills can be made by customers.

*United Water Conservation Plan, p27.*

A Fact Sheet prepared by the New Hampshire Department of Environmental Services entitled "Implementing a Water Efficiency and Conservation Program for Public Water Utilities" also includes a section on the importance of billing frequency,

The billing frequency of the water utility is an important factor in the implementation of water efficiency oriented rates. Lengthy billing periods can be a limiting factor. The more frequent the billing, the more likely conservation rates will be successful.

*New Hampshire Department of Environmental Services, Environmental Fact Sheet WD-WSEB-26-9, 2001, page 6.*

A study prepared for Utah water utilities by Western Resource Advocates includes the following section titled "Billing Frequency and Communication to Customer",

Customers' response to water rates is also influenced by the billing cycle and the ability to track their use. For example, bi-monthly billing cycles can be counter-productive to water conservation efforts. Customers interested in conservation or saving money adjust their home water use on an incremental basis, in response to consumption reported in each billing statement. This practice is particularly common during the summer irrigation months, when urban water use peaks. With a bi-monthly billing cycle, the summer can be half over by the time customers are notified of their recent consumption quantities. This may preclude many customers from making more efficient water use decisions earlier in the summer during the high water-use months.

*Water Rate Structures in Utah: How Utah Cities Compare Using This Important Water Use Efficiency Tool, Western Resource Advocates and the Utah Rivers Council, Jan, 2005.*

Additional support for monthly billing as a conservation tool comes from a recent study by the Pioneer Institute. Economists with the Institute studied consumer response to both price and non-price conservation efforts and found that the price elasticity of water was very similar to that of electricity and natural gas. Consumers respond similarly to price signals for these resources, and similar pricing and billing strategies had similar impacts. The report noted that water utilities that billed on a bi-monthly or quarterly basis showed a greater inelasticity. Customers were less likely to respond to price signals that were delayed. *Managing Water Demand: Price vs. Non-Price Conservation Programs, Olmstead and Stavins, Pioneer Institute Publication No. 39, July 2007.*

In its Application, the Company identified a number of other benefits to monthly billing. Staff also agrees that these are benefits that will be received by many customers. In particular, Staff believes that many customers, especially low income customers, will find it easier to make

smaller monthly payments rather than to pay for two months of usage. Staff anticipates that the Company will have fewer customers that fail to pay their bills, and that this lower number of delinquencies per billing will mitigate some of the costs of the increase in the number of billings.

## **COST REVIEW**

The Company submitted a detailed proposal of additional costs it would incur if monthly billing were implemented. A summary of those additional costs are listed below:

<u>Additional Cost Category</u>	<u>Amount</u>
Personnel	\$436,675
Billing & Payment Process	\$659,778
Transportation & Other	<u>\$ 29,452</u>
Total	\$1,125,906

Staff reviewed the assumptions used by the Company to determine these costs, and disagrees with some of the assumptions made by Untied Water. The Company stated it would need four additional Customer Service Representatives (CSRs). It currently has eight CSRs, and proposed increasing the number to 12. Staff does not believe the additional billings would necessitate adding any CSRs. Staff reasoned that the number of customers contacting the Company should not increase, that the number of customers with billing questions should not increase, and that the number of billing complaints would not increase. Staff therefore removed from the Company's cost proposal all the personnel costs related to the additional CSRs. By not adding any CSRs, Staff proposed to reduce the projected personnel costs by \$207,651.

Staff accepted United Water's assumptions concerning an increase in personnel costs associated with four additional meter readers.

Staff additionally did not agree with United Water's proposal regarding additional billing and payment costs. The Company projected a cost of \$.93 per bill and an additional 497,520 bills mailed. This billing rate is in a new contract the Company executed with its billing contractor, UBS. Staff has not audited nor determined the reasonableness of this new contract. Costs for billing are included in United Water's current rates at a cost of \$.72 per bill. Staff believes the billing costs included in rates to generate additional bills should be the same cost that the Commission has approved for the current bills, or \$.72 per bill. Staff therefore proposed to reduce this per bill cost to \$.72, reducing the Company's projected costs by \$104,479.

Staff also proposed to reduce the costs of additional customer communications and notices with associated postage, as the Company failed to justify the increased notices. This reduced the

additional cost proposal by \$54,190, for a total reduction in the billing and payment process cost of \$158,669 (\$104,479 + \$54,190).

Staff proposed to reduce United Water's projected additional costs a total of \$366,320. With these reductions, the Company's revenues would increase by \$759,586 to cover the cost of the monthly billing proposal, resulting in a 2.5% increase in customers' bills.

The Company does not agree with Staff's proposed cost reductions. Nonetheless, United Water agreed to implement monthly billing at a lower cost than originally projected. The Company has indicated it can implement the program with an increase of 2.95% in annual revenue rather than 3.75%. The Company believes the actual implementation costs will be greater than the amount recovered by a 2.95% rate increase, and the Company will seek to recover actual cost levels in its next rate case. Nevertheless, the Company is willing to accept and Staff is willing to support the 2.95% increase until the next rate case in order to implement monthly billing. Staff recommends that if the Commission approves a 2.95% rate increase, the Commission clarify in its Order that its approval is not a determination of the reasonableness of any expenditures, and that it will review the Company's actual costs and make such determinations in a subsequent rate case.

Staff recognizes a natural resistance to increasing rates for what may be considered an avoidable practice. When viewed as a long-term investment in conservation, however, Staff believes the costs of monthly billing will be significantly less than the costs of building treatment facilities that the Company has projected it will need, in the absence of effective conservation programs, to meet the demands of a growing population. Ratepayers will pay for those resources, whether achieved through conservation or by building new facilities. Staff is confident that conservation purchased with the cost of monthly billing will be less expensive than the marginal cost of the conventional supply side resources planned by the Company. Staff therefore believes the expense of moving to monthly billing will be beneficial for the ratepayers and is in the public interest.

## **SUMMARY OF PUBLIC COMMENTS**

As of January 7, 2008, the Commission received 337 comments in Case No. UWI-W-07-4. Three hundred thirty comments oppose the proposed change from bi-monthly billing to monthly billing and seven customers support the change. Community Action Partnership Association of Idaho (CAPAI) supports a change to monthly billing stating, "it is in the better interest of lower-income households to receive monthly billings." CAPAI noted that low-income households must

budget month-to-month, and that United Water's bi-monthly billing makes monthly budgeting more difficult. CAPAI argues that monthly billing "would allow households to potentially alter their habits to lessen consumption for the following month."

Forty-one of the customers who oppose the change indicated they would be in favor of the change if there were no additional cost to customers. Nineteen customers indicated the Company should read meters even less often and reduce the already high customer charge. Six customers stated they would be in favor of monthly billing if the Company added level pay as a billing option.

A common theme of the comments was "if it ain't broke, don't fix it". These customers fail to see any advantage to individual customers, and are opposed to the increased costs. Staff takes a broader view, and believes that monthly billing will enhance price signals, improve water conservation programs and more than pay for itself by deferring Company expenditures for expensive supply side resources. This benefits customers as a whole, although customers do not necessarily see this as a direct personal benefit.

Customers generally indicated that the proposed benefits identified by the Company are more in the Company's favor than in customers. About a fifth of the comments suggest the proposed change to monthly billing is not a benefit to the customer, but was proposed only to help the Company increase its cash flow by collecting revenues more frequently. Staff notes that the Company's request for a rate increase is for the estimated net cost increase. The benefits to United Water, including those of improved cash flow, were identified by the Company and were included in determining the net amount. Staff reviewed the Company's estimates of the values of these benefits and believes they are reasonable. Moreover, the Company has agreed to accept less of a rate increase than it believes will be required to implement monthly billing.

It appeared eleven of the customers, and perhaps more, were confused about how the proposed increase would affect the customer charge, assuming the current bi-monthly customer charge would be incurred each month. Only one-half the bi-monthly customer charge, plus the increase, will be included in each monthly bill.

Nine customers stated United Water should provide online billing options to offset the increased costs of monthly billing. The Company has indicated it is implementing online billing options, but these options take considerable time before the number of customers participating is large enough to provide significant savings.



Two customers suggest that any rate increase should be included in the cost of water instead of being added to the customer charge. The Company is projecting that the entire increase in costs is for billing and meter reading, exactly the types of costs that the Commission has indicated are appropriate to allocate to customer charges. Staff notes that this issue will be revisited at the next rate case, when a more comprehensive examination of costs and their allocation can be completed.

Two customers indicated if the Company is going to go to monthly billing it should upgrade to Automated Meter Reading (AMR) technology to offset labor costs. Staff also raised this question with the Company. The Company indicated it has initiated a study of AMR options, but no decisions have been made at this time. According to United Water, installation of AMR meters is not a simple matter and involves considerable installation and capital expenses. A rapid transition to AMR would involve significant expenses and lead to significantly greater increases in rates than simply moving to monthly billing. Staff notes that the business case for AMR, in most cases, includes a reduction in costs for manual monthly meter reading. Staff also notes that the increased cost for meter reading comprises only about one-third of the total incremental cost of monthly billing.

Many customers mentioned the City of Boise's recent change from quarterly billing to bi-monthly billing, allowing City utility bills for sewer and trash to arrive in months alternating with United Water's billing. The City does coordinate its billing with United Water so that customers get City utility bills approximately one month after they get United Water bills. It may be, however, that the primary reason for such billing coordination was the stress on customer's budgets that is imposed by United Water's bi-monthly bills. The Company's bi-monthly bills can create a hardship for many family budgets, especially in the summer. Water consumption charges vary considerably from month to month, and peak summer bills for two month's consumption can be many times greater than bills for two months of wintertime usage. In contrast, City utility bills are much smaller and relatively constant. Alternating bills avoids compounding the budget stress created by United Water's bi-monthly bills. Monthly billing will greatly reduce the budget stress created by large bi-monthly water bills, with monthly charges at about half of the charges for two months of usage. Staff believes monthly billing is a more effective means of addressing the budget stress than is coordination with City utility billing.

Several customers also pointed out that United Water's customer notification gave an incorrect internet address for the Commission's web page for customer comments. The Company eventually did correct the information on its own website after the customer mailings were complete.

## **RECOMMENDATIONS**

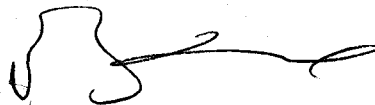
Staff recommends the Commission approve the Company's Application to implement monthly billing with an associated rate increase of 2.95%. Staff agrees that the increase, approximately \$.91 per customer per month, be added to the fixed customer charge. Staff believes the evidence supports monthly billing as a conservation resource that will result in some customers reducing water usage. In addition, it will make all demand side efforts and expenditures more effective. Staff believes that when viewed as an investment in demand side resources, the costs of monthly billing will be significantly less than supply side options, and this investment will lead to lower costs for the Company and over time, lower rates for customers.

Staff believes the cost of implementing monthly billing with a 2.95% increase is reasonable and appropriate for the expected additional efforts. This is a conservative amount that does not represent the full costs the Company expects to incur, but United Water has agreed to accept this level of recovery in the short term to implement monthly billing and obtain actual results to determine the accuracy of its estimates. Staff believes the investment in monthly billing to be in the public interest and recommends the Commission approve it. Staff recommends the Commission clarify that its approval is not a determination of the reasonableness of any expenditures, and that it reserves the opportunity to audit the Company's actual costs and make such determinations in a subsequent rate case. Staff also agrees with the Company's proposal to allow new rates to take effect five months after issuance of a final Order, providing time to complete implementation requirements.

**Respectfully** submitted this



day of January 2008.



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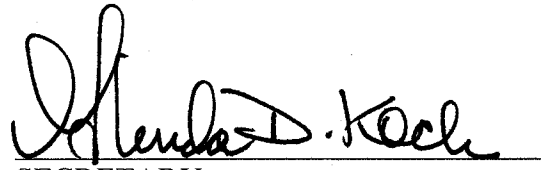
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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 9TH DAY OF JANUARY 2008, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. UWI-W-07-4, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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