

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF THE APPLICATION</b>	)	
<b>OF UNITED WATER IDAHO INC. FOR</b>	)	<b>CASE NO. UWI-W-11-02</b>
<b>AUTHORITY TO INCREASE ITS RATES</b>	)	
<b>AND CHARGES FOR WATER SERVICE IN</b>	)	<b>ORDER NO. 32443</b>
<b>IDAHO</b>	)	

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On August 3, 2011, United Water Idaho Inc. filed an Application to increase its rates and charges for water service effective September 2, 2011. United Water provides water service to business and residential customers in Boise, and currently provides service to approximately 85,000 customers. United Water proposes to increase its rates an overall average of 19.89%, resulting in an annual revenue increase of \$7,616,015. The Company proposes to increase the bi-monthly customer charge from \$18.10 to \$23.20 for customers served by a 5/8-inch and 3/4-inch service line. Customers served by a 1-inch service line would see an increase in their customer charge from \$23.79 to \$29.70.

United Water also proposes increases in its usage rates. Specifically, the volumetric charge for water used during the winter would increase from \$1.3521 to \$1.5710 per CCF. A CCF is 100 cubic feet of water and equals 748 gallons. The volumetric charge for water used during the summer would increase to \$1.5710 per CCF for consumption less than 3 CCF and increase to \$1.9639 for all water use greater than 3 CCF. The Company estimates that these rates would increase the water bill for an average residential customer by \$5.82 per month.

United Water states it has invested more than \$20 million in its system since its last rate case. These capital improvements include a new well supply treatment facility at the Hilton well, a new 600,000-gallon water storage facility serving the Warm Springs Mesa area, installation of 1.7 miles of new 24-inch water main along Hill Road to improve pressure and fire protection, and replacing water mains, service lines and meters throughout the system. United Water is also investing \$5.5 million in a new customer information system. In addition, the Company asserts that average water consumption per metered customer has declined significantly over the past several years resulting in lower annual revenues to the Company. This reduction in annual revenue makes up roughly 38% of the Company's overall rate request.

The Company's proposed rate increases include a proposed return on equity of 10.50%, resulting in an expected overall rate of return of 8.43%. The Company asserts its current rate structure results in a rate of return of 5.64% based on a test year ending April 30, 2011.

On August 18, 2011, the Commission issued a Notice of Application and Notice of Intervention providing a 14-day period for interested parties to file Petitions to Intervene, and an Order suspending the proposed effective date of September 2, 2011, for the new rates, as authorized by *Idaho Code* § 61-622. Order No. 32333.

The only Petition to Intervene was filed by Community Action Partnership Association of Idaho (CAPAI) and the Commission granted intervention by Order No. 32334 issued August 18, 2011. The Commission subsequently issued a Procedural Order on October 5, 2011, establishing dates for the pre-filing of testimony and a technical hearing in February 2012. A public workshop was held on November 28, 2011, for the purpose of providing information concerning the Company's Application and to obtain input from the public prior to Staff filing its comments or testimony. Following discussions by Staff, CAPAI, and United Water, the parties reached a settlement on the Company's Application and on December 8, 2011, the parties filed a Motion for Approval of Stipulation along with the Settlement Stipulation. Testimony in support of the proposed settlement was filed by all parties on December 13 and 14, 2011. Finally, on January 5, 2012, the Commission convened a hearing to receive testimony regarding the settlement, and a public hearing to take formal testimony of customers and interested members of the public. Order No. 32416.

#### **THE PROPOSED SETTLEMENT STIPULATION**

The proposed Stipulation significantly reduces the Company's original request for an average 19.89% rate increase. Rather than the \$7.6 million annual revenue increase requested by the Company, the Stipulation provides for an increase in revenue requirement of \$3,050,000 effective February 1, 2012, and an additional \$950,000 effective February 1, 2013. The initial increase amounts to 7.96%, and the additional increase effective February 1, 2013, is an increase of 2.48%.

The Stipulation proposes to spread the rate increase uniformly between the Company's customer charge and its commodity charges. Further, the Stipulation provides that

United Water will not file a general rate case that would result in new rates effective prior to January 1, 2014.

The Stipulation also provides specific terms for the Company's deferral and accounting of certain expenses, more particularly described as follows:

- (1) An unamortized balance of deferred Idaho Power Company power expenses as authorized in a previous United Water case in the amount of \$365,570 will be re-amortized over a period of 36 months commencing February 1, 2012. A pending deferred power balance of approximately \$185,000 will be amortized over a period of 36 months, also commencing February 1, 2012.
- (2) An unamortized balance of deferred rate case expenses will be re-amortized over a period of 36 months, starting February 1, 2012. Rate case costs incurred in this case will be deferred and amortized over the same 36-month period.
- (3) Expenses of approximately \$230,000 the Company incurred for painting and rehabilitating the Hillcrest water storage reservoir will be amortized over a period of 20 years.
- (4) Contributions the Company makes to its pension plan in excess of or less than \$1,300,000 will be recorded as a deferred asset or liability for the difference between the actual cash contribution and the amount of \$1.3 million the Company contributed in 2010. Any amounts so deferred will be presented by the Company for amortization in its next general rate case, and if the Commission determines it was a prudent expense, the Company can expect to amortize the deferred asset or liability over a period not to exceed three years.
- (5) The Stipulation provides the Company may defer actual relocation expenses incurred up to a maximum of \$125,000. The Company included in this case its efforts to hire a new assistant manager. The amount deferred will be amortized over 60 months, and the unamortized amount may be presented by the Company for inclusion in its next general rate case.
- (6) The redundant power expense may be deferred and amortized over five years.
- (7) The Company may continue to amortize amounts previously approved.

Finally, the Stipulation provides that the useful life of the Company's new customer service computer system shall be a period of 10 years, commencing November 1, 2011.

The Stipulation does not provide for a uniform spread of the rate increase between the Company's customer charge and its usage charges. Instead, the "adjustments reflect a movement toward recovering appropriate customer costs in the per meter charge, as supported by the cost of service study sponsored by the Company." Exh. 101, p. 6. The Company agreed in the Stipulation that in its next general rate case, it will not seek further adjustment to the per meter charge except on a uniform percentage increase basis.

Finally, the Stipulation addresses issues presented by CAPAI to address specific issues for low-income customers. The Company has agreed to increase the annual per customer cap of \$50 of benefit under the UW Cares program to \$65 per customer per year. The Company agreed to provide CAPAI an analysis of water consumption patterns of a representative sample of customers who have received benefits under the UW Cares program. In addition, to enhance water conservation opportunities for low-income customers, United Water will make available to requesting CAPAI agencies residential water conservation devices for distribution to low-income customers.

Each of the parties filed testimony in support of the Settlement Stipulation. Staff signed and supports the Stipulation because "the comprehensive multi-year approach to resolving revenue requirement represents a significantly better deal for customers than could be achieved through either a one-year settlement, litigation of the current rate case, or resolution of additional rate filings in 2012." Tr. p. 19. CAPAI, in testimony supporting the proposed settlement, stated the two-phase approach to a rate increase "lessens the impact of the rate increase in the first year and provides assuredness for a slightly expanded time and, even in total, is considerably less than that originally proposed." Tr. p. 41. In its testimony supporting the Stipulation, United Water stated the proposed effective date for new rates, February 1, 2012, is a material term to the Company. If the case had been fully litigated, new rates would not have been effective until at least March 3, 2012. The Company stated that "although it is possible the Company would have received an ultimate rate award greater than the agreed settlement amount if the case was fully litigated, receiving an amount certain earlier than legally required was a material factor in the Company's agreement to accept an overall increase of \$4 million rather than pursue through hearing the full amount of its revised request." Tr. p. 11.

## **CUSTOMER COMMENTS**

The Commission received written comments from more than 250 customers of United Water, and one customer appeared at the public hearing on January 5, 2012. Most of the comments were filed before the Settlement Stipulation was reached and announced, and thus respond to the Company's request for a 19.89% rate increase. The customers clearly opposed a rate increase of that magnitude. Customers noted the difficult economic environment, including lost jobs and reduced incomes, making a rate increase particularly unpalatable. Some customers suggested United Water should delay improvements to its facilities until the economy improves, and some customers responded to the Company's concern that reduced consumption has lowered Company revenues. Some customers have made a concerted effort to lower their water usage, and stated a belief that their efforts are being punished if conservation results in a rate increase.

The customer who testified at the public hearing opposed any rate increase, and specifically addressed a possible increase in United Water's customer charge. Noting that monthly fixed-customer charges for local electric and gas utilities are \$4, less than one-half the amount of United Water's, the customer suggested any rate increase should be placed on commodity charges so that the fixed-customer charge could be reduced. Tr. pp. 54-55. Numerous customers also addressed the amount of United Water's customer charge in written comments.

## **COMMISSION DISCUSSION**

The process for the Commission's consideration of settlement stipulations is set forth in Procedural Rules 271-277. IDAPA 31.01.01.271-277. When a settlement is presented to the Commission, the Commission will prescribe the procedures appropriate to the nature of the settlement to consider it, and in this case, the Commission convened both a technical hearing and a public hearing on the settlement. IDAPA 31.01.01.274. The purpose of an evidentiary hearing on a settlement is "to consider the reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy." IDAPA 31.01.01.274. Proponents of a proposed settlement have the burden of showing that the settlement is reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. IDAPA 31.01.01.275. Finally, the Commission is not bound by settlement agreements. Instead, the Commission "will independently review any

settlement proposed to it to determine whether the settlement is just, fair and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy.” IDAPA 31.01.01.276.

After careful review of the record in this case, the Commission has determined to approve the settlement, finding its terms to be just, fair and reasonable and in the public interest. United Water presented an Application for nearly a 20% rate increase, and filed testimony and exhibits to justify that amount. There is no dispute that the Company has made capital improvements that are properly recovered in rates, and that its costs have increased since its last rate increase, while its revenues have declined.

The settlement results in a significantly lower increase to United Water’s revenue requirement than requested in the Company’s Application. Before agreeing to the settlement, Staff thoroughly reviewed Company expenses and investments. In its review, Staff identified more than 30 adjustments it would recommend to the Company’s requested revenue requirement, but focused on return on investment, normalized water sales, employee compensation, the new computer system, and working capital. Tr. p. 8. Staff adjustments to these components comprise an approximately \$4 million reduction in the Company’s requested additional revenue of \$7.62 million. Tr. p. 8. Staff acknowledged, however, that the return on equity it proposed “was significantly below anything approved by the Commission for an Idaho utility in the last 20 years.” Tr. p. 26. Further reductions were difficult for Staff to find because the Company’s request for additional revenue was driven primarily by “additional Company investment, increases for power, pensions, chemicals and other operational expenses and declining revenues to recover fixed costs.” Tr. p. 8. For example, “new investments for things such as pipelines, filtration and pumping are clearly required for providing adequate service and are also subject to limited adjustment.” Tr. p. 26. Costs like these “are justified and simply must be paid for, creating an unavoidable revenue requirement increase.” *Id.*

CAPAI in its testimony in support of the Stipulation acknowledged that “United Water, like any utility, experiences increases in the costs of providing water service to its customers, must finance projects necessary to accommodate growth, and must maintain and occasionally replace existing infrastructure, among other things.” Tr. pp. 44-45. Like Staff, CAPAI believed, given limitations on available cost adjustments, that litigation likely would have resulted in a revenue requirement higher than provided in the Stipulation. Tr. p. 45. CAPAI also testified the rate case moratorium in the Stipulation provides rate certainty to

customers at least through 2012 and 2013, benefitting all customers. Tr. 44-45. Citing the increase in the allowance available to qualifying customers in the UW Cares program, which is funded primarily by the Company, CAPAI stated its appreciation for United Water's "exemplary attitude toward its low-income customers." Tr. p. 45.

The Commission specifically acknowledges the many comments filed by concerned customers. The magnitude of the Company's original request generated significant customer response, none favorable to the request. The Stipulation we approve is for a significantly reduced amount, and spreads recovery of that reduced amount over two years. In addition, the Stipulation addresses another major concern expressed in customer comments, that is, that reduced water consumption per customer should not result in a rate increase. The Stipulation "captures the effect of Staff's adjusted normalized consumption levels," so that "much of the Company's proposed rate increase due to reduced water consumption has been removed." Tr. p. 27. The Commission appreciates the time and thoughtful effort extended by many customers to file written comments.

Some customers in their comments objected to an increase to the fixed customer charge. Most United Water customers pay a bi-monthly customer charge of \$18.10, or \$9.05 per month, and the Stipulation proposes to increase it to \$20.10, or \$10.05 per month. Exh. 101, p. 11. United Water's customer charge is noticeably higher than the monthly customer charge for electric and gas utilities operating in Idaho. The Company originally requested a much higher increase to the customer charge, based on its cost-of-service study showing relatively high fixed costs that do not vary depending on customer water consumption.

Both Staff and CAPAI support the increase to the customer charge in the Stipulation. CAPAI generally "prefers to place the bulk of any rate increase on the commodity rate rather than customer charge to enhance a customer's ability to control his or her bill," but noted that United Water's cost-of-service study justifies a much higher customer charge. Tr. pp. 41-42. CAPAI believes the proposed customer charge "is reasonable in light of the reduced rate increase proposed in the settlement and in light of the enhancements to low-income customers agreed to" in the settlement." Tr. p. 42.

The Commission understands customer concerns about United Water's customer charge, and notes the issue has been raised in previous cases. Cost-of-service studies for water companies typically show a higher degree of fixed costs to deliver water than is necessary to

deliver electricity or gas to customers, and this is true for United Water. A high degree of its costs are in the system it operates and maintains, and those costs exist independent of the amount of water consumed. In addition, the rates for United Water “must be based on the actual investments and expenditures made by that Company, and are not affected by the investments and expenditures of other companies that are operating in different circumstances, and whose rates will be different than those of United Water.” Order No. 31016, p. 9. Finally, any revenue requirement amount not collected in the customer charge must be recovered in the commodity charges that customers pay. Higher usage rates increase customer bills, especially when summer rates are in effect. Collecting a larger amount in the customer charge also provides greater revenue stability for the Company.

On the record in this case, the Commission finds the revenue increase of \$3.05 million, effective February 1, 2012, and the additional revenue increase of \$950,000, effective February 1, 2013, as provided in the Stipulation, are just, fair and reasonable. These increases, spread over two years and coupled with a moratorium on any new rate increases for the next two years, provide appropriate rate relief to the Company to cover increased costs, and provide reasonable rate stability to customers. The Commission also finds the other terms of the Stipulation to be fair, just and reasonable and in accordance with law and regulatory policy. The Stipulation identifies six expense deferral accounts: (1) power supply expense; (2) rate case expense; (3) tank painting expense; (4) pension expense; (5) relocation expense for new assistant manager; and (6) redundant power expense. Two of the expenses identified for deferral and amortization, power supply and rate case expenses, also extend accounting and cost recovery already approved by the Commission in Order No. 31029, Case No. UWI-W-09-01. Tr. p. 31. These amortization and deferral accounts provide a reasonable accounting process to United Water without including those costs for recovery in rates in this case. The specific deferral accounts identified in the Stipulation are consistent with previous Commission practices for these types of expenses, and the Commission finds these terms to be consistent with law and regulatory policy.

### **INTERVENOR FUNDING**

On January 13, 2012, CAPAI filed a Petition for Intervenor Funding pursuant to *Idaho Code* § 61-617A. Section 61-617A includes a statement of policy to encourage



participation by intervenors in Commission proceedings. The Commission determines an award for intervenor funding based on the following considerations:

- (a) A finding that the participation of the intervenor has materially contributed to the decision rendered by the Commission; and
- (b) A finding that the costs of intervention are reasonable in amount and would be a significant financial hardship for the intervenor; and
- (c) The recommendation made by the intervenor differed materially from the testimony and exhibits of the Commission Staff; and
- (d) The testimony and participation of the intervenor addressed issues of concern to the general body of users or consumers.

*Idaho Code* § 61-617A(2). CAPAI requested an award of \$3,782.43.

CAPAI's Petition provides sufficient documentation to satisfy the requirements of Section 61-617A and Commission Rule of Procedure 161-165 for an award of intervenor funding. The Stipulation specifically addresses issues presented by CAPAI and was materially different from testimony and exhibits filed by Staff, and CAPAI's participation addressed issues of concern to the general body of customers. Finally, the documentation of the costs and fees incurred by CAPAI establishes that the request is reasonable in amount, and would constitute a financial hardship on CAPAI if not approved. Accordingly, we approve an award of intervenor funding to CAPAI in the amount of \$3,782.43.

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

United Water Idaho Inc. 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 Stipulation filed by the parties on December 8, 2011, is approved. United Water is authorized to file tariffs to implement the rates set forth in Exhibit 101 effective February 1, 2012, and February 1, 2013.

IT IS FURTHER ORDERED that the CAPAI's Petition for Intervenor Funding is granted in the amount of \$3,782.43.

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. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

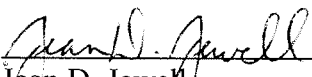
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 24<sup>th</sup> day of January 2012.

  
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PAUL KJELLANDER, PRESIDENT

  
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MACK A. REDFORD, COMMISSIONER

  
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MARSHA H. SMITH, COMMISSIONER

ATTEST:

  
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Jean D. Jewell  
Commission Secretary

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