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BEFORE  THE  IDAHO  PUBLIC  UTILITIES  COMMISSION

IN THE MATTER OF THE APPLICATION)CASE NO. UWI-W-96-2

OF UNITED WATER IDAHO INC., FOR AN)

ORDER APPROVING THE PURCHASE OF)

WATER SERVICE PROPERTIES OF M&M)

MOUNTAIN VIEW ACRES SUBDIVISION)COMMENTS OF THE

WATER COMPANY, INC., AND FOR AN)COMMISSION STAFF

ORDER APPROVING AMENDMENT OF)

CERTIFICATE OF PUBLIC CONVENIENCE)

AND NECESSITY NO. 143 AS AMENDED.)

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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 Notices of Application and Modified Procedure in Case No. UWI-W-96-2, submits the following comments.

BACKGROUND

M&M Mountain View Acres (M&M) is a small subdivision located in Canyon County east of the City of Nampa. The water system serving the 30-lot subdivision is operated by the M&M Homeowners Association and consists of a small well and approximately 2,600 feet of 3-inch diameter distribution pipe.  In September of 1995, the Association was notified by the Idaho Division of Environmental Quality (DEQ) that the existing well was contaminated and had to be replaced.  Rather than raise the capital to replace the well and continue to operate and maintain the system, the Association contacted United Water Idaho (UWI; Company).  Following negotiation, an agreement was reached to sell the water system to UWI for $10 with a guarantee that the Company would replace the well and operate and maintain the system.  UWI proposes to integrate the M&M system into its Boise service area for accounting purposes but has no plans to interconnect the systems physically.

STAFF ANALYSIS

Staff believes the primary issue associated with UWI’s proposal to acquire the M&M system is the potential subsidy by existing UWI customers of a revenue deficiency resulting from the acquisition.  The revenue deficiency is due to a combination of relatively high capital investment and low customer demand.  As a result of the purchase, UWI will construct a new well at an estimated cost of $30,000 and make other system improvements including installation of control valves, installation of blow-off valves and installation of individual customer shut-off valves at an additional cost of approximately $14,400.

The Company has also indicated that, on a longer term basis, the entire distribution system will have to be replaced to upgrade the existing 3-inch system to a sufficient size to provide fire-flow capacity and remove some of the existing system from private property.  Neither the Company nor the Staff have attempted to quantify the rate effect of this modification to the system.  Suffice it to say, the new well together with the improvements identified by UWI, in both the short term and the long term, represent a complete replacement of the existing system at a cost far in excess of the initial $30,000 cost represented by the Company in its application.

Based upon cost estimates provided by the Company, Staff calculated that a monthly rate of $25.13 would be required to cover the “full” cost of service.  However, Staff’s analysis of the Company’s estimates revealed that the Company used a future depreciated rate base estimate mid way through the anticipated life of the new well.  In addition, the Company estimates did not include any recognition of the additional $14,400 investment the Company has identified or any future distribution system modifications.

Using the Company-provided estimates, Staff performed its own calculation of the initial monthly rate that would be required for the system to function on a stand-alone basis.  Staff substituted the full estimated cost of the new well improvements for the mid-life value used by UWI and determined that a monthly rate of $30.38 would be required.  Attachment A shows the development of this number.

Also shown in Attachment A, is a proforma adjustment recognizing the additional investment of $14,400 that UWI has indicated must be made in the next one or two years.  If these improvements are made, the effect will be to increase the required rates on this system from $30.38 to $38.19, nearly double the Company-proposed $20 rate.

The Staff analysis shows that the M&M acquisition will result in an annual revenue deficiency and a potential subsidy by existing UWI customers of about $6,500.  This deficiency will  increase if additional system improvements are made.  With surface water readily available for irrigation, customer demand for water from the well system is greatly reduced.  Installation of meters and application of existing UWI rates would only exacerbate the problem by increasing revenue requirement and generating even less revenue.

While Staff recognizes the operational convenience that UWI offers to M&M, the Association may not have fully investigated the financial alternatives available for well replacement.  For example, the Idaho Department of Water Resources (IDWR) has low interest (5%) funds available to make water system improvements.  Based on conversations with IDWR staff, it appears the residents could easily qualify for a loan with a 10- to 15-year amortization.

Attachment B shows the amortization cost of a $30,000, 5% loan over both 10 and 15 years.  The attachment also shows the rate customers would have to pay assuming all of UWI’s estimated operating costs together with the monthly amortization of a loan.  Staff believes that the homeowners could save a significant amount of this composite cost through self administration of the system and contracting with a local pump and plumbing contractor for maintenance on an as-needed basis.

CONCLUSION AND RECOMMENDATIONS

In conclusion, the Company’s proposal will raise M&M rates from $7 per month to $20 per month and will still result in a revenue deficiency that must be subsidized by existing UWI customers or stockholders.  The alternatives are: 1) raise rates further; 2) require the Company to absorb the deficiency; or 3) reject the purchase in lieu of IDWR type funding and continued homeowner operation.  Staff believes the latter of these alternatives is best for the Company, the residents of M&M Mountain View Acres and the Company’s existing customers.  If the purchase is approved as proposed and the deficiency is allowed to be spread among all UWI customers, Staff believes that a poor precedent will be established that may lead to additional acquisitions with potentially more significant revenue deficiencies.  Therefore, the Staff recommends that the Commission reject the Company's proposal as filed.

Should the Commission approve this acquisition by UWI, the Staff recommends that the rates charged M&M customers more fully reflect the true cost of obtaining service from UWI.  The Staff also strongly urges that the Company be directed to account for all of the costs of providing service to the M&M area in a manner that will allow identification of those costs.  This can be accomplished through the Uniform System of Accounts using subaccounts within each of the accounts currently maintained by UWI.  The Company should be aware that, in future rate cases, the Commission may not recognize any revenue shortfall realized.

If such acquisitions become common place in the future, Staff recommends that each acquired system be accounted for separately to determine revenue sufficiency.  If, with experience, it is shown that the costs of the individual systems are sufficiently recovered from the system customers or costs do not vary significantly, it may be appropriate to collapse the subaccounts.

DATED at Boise, Idaho, this             day of June 1996

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