Scott D. Woodbury

Deputy Attorney General

Idaho Public Utilities Commission

PO Box 83720

Boise, ID  83720-0074

Tele:  (208) 334-0320

FAX: (208) 334-3762

Street Address for Express Mail:

472 W Washington

Boise, ID  83702-5983

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE APPLICATION OF UNITED WATER IDAHO INC. FOR AUTHORITY TO REVISE AND INCREASE RATES CHARGED FOR WATER SERVICE | )  )  )  )  )  )  ) | CASE NO. UWI-W-96-3  POST-HEARING MEMORANDUM OF COMMISSION STAFF |

At the conclusion of hearing in Case No. UWI-W-96-3, United Water requested the opportunity to submit comment and/or briefing regarding the issue as to who has the burden of proof or persuasion regarding the prudence of the Company’s new practice and policy to lease rather than own its fleet of vehicles.  (i.e., “The Company has initiated a program where vehicles are leased rather than purchased.”  Healy direct p. 15.)  As part of its “make-whole” rate case the Company seeks to recover a $197,170 annual increase in operating expense associated with vehicle leases.  Reference UWI Exhibit 3, Schedule 1, page 8.

In Case No. BOI-W-93-3, the Company’s last general rate case, the Commission allowed recovery of leased vehicle expense for eight vehicles.  Order No. 25640, p. 17.  Staff had sought to exclude the expense in that case because the Company’s proposed expense was based on budget estimates and was not “known and measurable.”  The record in that case reflects that there was no analysis or assessment presented by the Company or other parties as to the underlying reasonableness of the “lease vs. own” decision.  No cost/benefit analysis was presented.  In the context of the Company’s general rate case, the dollar amount of the leasing expense was de minimis.  The Commission authorized the expense based on subsequently submitted documentation by the Company evidencing that leased vehicles would be delivered at a future date.

As part of its “make-whole” rate filing in this case, the Company seeks to include and recover the expense associated with 30 additional vehicle leases.  The Company asserts that the expense and the Company’s decision to lease is justified and prudent because the Commission specifically allowed leased vehicle expense in BOI-W-93-3.  Healy rebuttal p. 2.  The Company contends that it “simply expanded its leasing program.”

Staff disputes the Company’s contention that leasing vehicles is the “most cost effective method” of providing vehicles.  Healy rebuttal p.2.  Staff has submitted testimony and evidence (Smith direct pp. 10, 11, Staff Exhibit Nos. 112 to 114) from which one could reasonably conclude 1) that the Company’s cost/benefit analysis is misleading and flawed, 2) that the Company’s cost/benefit analysis has grossly under-estimated the residual (resale) value of its vehicles as reflected by the Company’s own historical experience (see Staff Exhibit Nos. 112, 114) and 3) that leasing is more expensive than owning (Staff Exhibit No. 113).

It is glaringly evident in this case that the Company conducted no up-front independent study either as to “lease vs. own” or as to the choice of lessor, but instituted the change in its practice at the direction of its parent company and indeed used the lessor chosen by the parent.  Unfortunately the parent in this case seems the type of parent who feels it needs not fully justify its decisions to its child.  This puts the child in an awkward position in demonstrating the reasonableness of the decision to regulators.

UWI presents a litany of leasing benefits, provided not surprisingly by the lessor, American Leasing Corp.  The Company’s witness, however, presents the results of little, if any, independent study.  What study the Company performed was shallow.  United Water seemingly believes it is under no obligation to demonstrate the prudence of its leasing decision beyond general conclusory statements and assertions of “prudence,” “common business practice,” a representation that the vehicles in fact are now “used and useful,” an infelicitous assertion that the Commission should be precluded from questioning the practice and management decision having previously approved such an expense, and by way of intimidation, a not too veiled warning that the Commission’s actions in denying recovery, should it to do so, would be viewed by the Company as confiscatory.

The Commission has the authority and jurisdiction under Idaho Code §§ 61-501 to 503 to investigate company contracts or practices, particularly the determination of what business expenses may be classified as “operating expenses” and thus passed on to the utility’s ratepayers.  WWP v. Kootenai Environmental Alliance, 99 Idaho 875, 591 P.2d 122 (1979).  The Commission also has the duty to ensure that established rates are not simply just to the utility, but also reasonable to the consumer, and equitable.  IPCo v. Blomquist, 26 Idaho 222, 141 P.2d 1083 (1914).

Staff does not dispute the Company’s contention in this case that the leased vehicles have been devoted to public service and are otherwise used and useful.  Staff challenges the Company’s cost/benefit analysis and assertion that leasing is cheaper than owning.  The Company has not demonstrated such to be the case.  Staff has shown the Company’s logic to be based on flawed analysis and reasoning.  That being said it is Staff’s contention that the burden remains with the Company to demonstrate the prudence and reasonableness of leasing vs. owning 30 additional vehicles.  Certainly the Company should not have to eat all leasing expense, but the burden of demonstrating what expense is otherwise allowable should be remain with the Company.  Without such a record, the expense must be denied.

Respectfully submitted this                        day of October 1996.

Scott D. Woodbury

Deputy Attorney General

for Commission Staff

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