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Attorney for Commission Staff

BEFORE  THE  IDAHO  PUBLIC  UTILITIES  COMMISSION

IN THE MATTER OF THE JOINT)CASE NO. UWI-W-96-8

APPLICATION OF UNITED WATER IDAHO)

INC. AND BANBURY HOMEOWNERS)

ASSOCIATION, INC. FOR AN ORDER)

APPROVING THE PURCHASE BY UNITED)

WATER IDAHO INC. OF WATER SERVICE)

PROPERTIES OWNED BY BANBURY)

HOMEOWNERS ASSOCIATION; FOR )COMMENTS OF THE

AUTHORITY TO EXPAND UNITED )COMMISSION STAFF

WATER IDAHO'S CERTIFICATE OF)

PUBLIC CONVENIENCE AND )

NECESSITY NO. 143; AND FOR)

APPROVAL OF RATES AND CHARGES.)

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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-96-8, submits the following comments.

SUMMARY

In the matter of the proposed sale and transfer of Banbury Homeowners Association Inc. (BHA) water service properties to United Water Idaho (UWI), Staff recommends that the Company’s Application be denied.  Staff contends that UWI should not pay for the BHA system; that there should be no addition to UWI's rate base; and that there should be no phase-in of rates to the BHA customers.

BACKGROUND

This case involves the proposed purchase of  BHA water service properties by UWI.  Specifically, it represents the purchase of all of the BHA property used and useful in the furnishing of domestic potable water service by BHA.  The purchase price is $189,200.  The purchase agreement gives UWI the option to buy the potable water well at a later date for $144,000.

The Banbury subdivision water system was installed by the developer beginning in 1986 for approximately $300,000.  Ownership and management responsibility were subsequently turned over to BHA which currently contracts with Energy Management and Maintenance Inc.(EM2) for the day to day maintenance and operation of the BHA system.  EM2 is an unregulated affiliate of UWI.  The developer is recovering his investment in the water system through the sale of  lots.  The subdivision contains 172 lots, of which 152 have been sold.

The BHA subdivision water system is a dual system supplied by surface canals and two wells.  One system is used to deliver potable water and the other system is used to deliver irrigation water.  The potable water system is fed from a single well because only one of the wells provides water of sufficient quality.  The irrigation system can be fed from the surface canals and both wells.

The sale price involves only the potable water distribution system and does not include its associated well.  The irrigation system will continue to be owned, maintained and operated by BHA.  To provide water to the Banbury subdivision after the sale UWI must physically connect the current UWI system to the BHA system.  Costs associated with the connection are not mentioned in this Application, but are estimated to be $76,000.

As a motivating factor in the sale of the system, the Application states that:

The current owners of Banbury desire to convey the Banbury domestic water system because they are unwilling to undertake the perceived risks of continued operations arising from increasingly stringent water quality regulations, and increasingly complex operational and technical requirements.  Because of its small size Banbury has experienced, and in the absence of this sale, would continue to experience, difficulties in maintaining its system and in obtaining adequate financing for operations, maintenance, and expansion.

As mentioned above, UWI is proposing to pay BHA $189,200 for their system and pass the same amount into the UWI rate base.  This price is based on UWI’s embedded rate base per customer of $1,100 multiplied by the 172 possible lots in Banbury.  After the sale, UWI intends to raise BHA customers rates to the same level as other UWI customers over a two year phase-in period.  The higher rates will ultimately result in the average BHA monthly bill for potable domestic water increasing from $9.41 to about $14.74, an increase of $5.33.

STAFF ANALYSIS

In its Application, the Company proposes to invest approximately $1100 per customer through the purchase of the Banbury subdivision water system.  As justification for this level of investment, the Company maintains that new customer revenues will support this level of investment and existing ratepayers will be unharmed by the purchase.  While Staff is not opposed to the acquisition of the Banbury system by UWI, we do not believe that the Company has shown that paying for the system as proposed is in the public interest.

In order to determine if an investment of this amount represents a reasonable addition to ratebase, the Staff considered what the original cost of the water system was, when it was originally placed in service and how the costs were recovered.  It is Staff’s position that the developer of the Banbury subdivision originally placed the water system in service and recovered the cost through the sale of lots.  The developer then donated the system to the Banbury Homeowners Association (BHA) which is a legal entity separate from its customers.  The Association has an ownership position but not an investment position.  Therefore, any payment to the Association by UWI in excess of the cost incurred by BHA constitutes an acquisition adjustment.  To include an acquisition adjustment in ratebase, the Company must show that the premium paid was in the public interest and does not cause harm to existing customers.  Staff does not believe that the Company can meet this burden for the following reasons.

∙UWI’s line extension rules for residential subdivisions require that the Company make an investment of about $1100 per customer based on the premise that the investment can be supported by new residential revenue of about $300 per year.  However, Banbury customers will only generate about $200 per year because irrigation water will be supplied through a separate system. $200 will not support an investment of $1100.

∙Under existing Company tariffs, new residential customers would be required to pay a hook-up fee for water supply based on meter size.  Because most of the meters in Banbury are at least 1 inch in size, the fee would be about $783.  The Company does not propose to collect this fee from Banbury customers so the allowable investment made by the Company should be reduced.

∙The actual Banbury water system cost originally paid for by homeowners through the purchase of lots was installed ten years ago.  Therefore, it is older and less valuable then similar facilities installed by the Company today.

To summarize, While staff does not oppose UWI’s acquisition of the Banbury water system, we do oppose ratebase treatment of the proposed purchase price.  Staff believes that the Company has not shown that it is in the public interest to purchase the system from the Homeowner’s Association when it was contributed to the association by the developer.  The proposed payment for the system based on UWI embedded costs is inappropriate because insufficient revenue is generation from Banbury customers, hook-up fees are not collected to reduce Company investment and the facilities purchased are older and less valuable.  Staff recommends that the Company renegotiate with the Banbury Homeowners Association for acquisition of the water system.

Phase in of Rates

Staff does not support the Company’s proposal to phase-in rates.

UWI makes no statement in the Application regarding the reason for phasing-in of the full residential rates for customers in BHA.  Staff observes that common reasons for phasing rates in over time range from simple courtesy at one extreme, to a means of helping new customers avoid the shock of having to suddenly pay substantially higher rates at the other extreme.

If the issue is one of courtesy, Staff objects to the phase in on the ground that this is not a hostile takeover of BHA by UWI.  The residents of Banbury are a willing, even eager seller to UWI.  To that end, Staff sees no reason for UWI to offer a courtesy phase-in rate to the residents of Banbury.

If the issue is one of rate shock, Staff notes that UWI rates will result in the typical BHA customer's bill increasing from an average of about $9.41 per month under current rates to about $14.74 per month (Attachment 2) under the current UWI rate schedule.  Without dwelling on the issue, Banbury is not a low income housing project and Staff doubts that a $5.33 per month rate increase would be burdensome.  In addition, with a separate irrigation system to buffer summer consumption, Banbury customers will not be subject to substantially higher rates.

Staff offers the observation that the degree to which a rate or a rate increase is a burden differs relative to the size of the increase and the financial capabilities of the individuals involved.  Staff readily admits that a $5.33 per month increase may cause financial hardship for the members of some neighborhoods.  However, Staff strongly believes that the residents of Banbury, whose home values rank among the highest 2.4% (Attachment 3) of all homes in the valley, would not find a $5.33 per month increase burdensome.

It is Staff’s position that this treatment benefits the lot owners.  By purchasing the lots, with their attendant improvements, the investment in the water system passed from the developer to the ultimate lot owner and the investment in the water system is vested in the lot.  Since the management responsibilities associated with the water system were transferred to BHA, the lot owner did not get them.  As a result, the lot owner pays, through rates, for BHA's costs of managing and maintaining the system.  This will also be the case under UWI.  While the lot owner will be required to pay marginally higher rates, these will be offset by spreading future risks over the entire UWI rate base.

DATED at Boise, Idaho, this             day of January 1997.

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Scott D. Woodbury

Deputy Attorney General

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TO:MYRNA J. WALTERS, COMMISSION SECRETARY

PARTIES OF RECORD

FROM:SCOTT WOODBURY, DEPUTY ATTORNEY GENERAL

DATE:FEBRUARY 4, 1997

SUBJECT:CASE NO. UWI-W-96-8

On January 31, 1997 Staff submitted its comments in Case No. UWI-W-96-8.  The referenced attachments were inadvertently left off.  The attachments are enclosed.

Please accept our apology.

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Scott D. Woodbury

Deputy Attorney General

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