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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE APPLICATION OF HIDDEN SPRINGS WATER CO., LLC FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY.    IN THE MATTER OF THE APPLICATION OF UNITED WATER IDAHO INC., FOR AUTHORITY TO AMEND AND REVISE CERTIFICATE OF CONVENIENCE AND NECESSITY NO. 143. | )  )  )  )  )  )  )  )  )  )  ) | CASE NO. GNR-W-97-2  CASE NO.  UWI-W-97-3 |

OBJECTION AND RELATED COMMENTS OF THE COMMISSION STAFF TO UNITED WATER AND HIDDEN SPRINGS MOTION TO APPROVE STIPULATION AND SETTLEMENT

COMES  NOW  the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, submits the following objection and related comments of the Commission Staff to United Water and Hidden Springs Motion to Approve Stipulation and Settlement.

BACKGROUND

On June 2, 1998, the Commission received a motion to approve a Stipulation and Settlement Agreement between United Water Idaho (United Water; Company) and Hidden Springs Water Company (Hidden Springs) for the extension of water facilities to the Hidden Springs residential development.  The settlement seeks to permit United Water to amend its Certificate of Public Convenience and Necessity No. 143 to include the Hidden Springs Community, it seeks approval of the service agreement between the two parties and it seeks to dismiss Case No. GNR-W-97-2.  The underlying basis of the Stipulation and Settlement Agreement is the Water Infrastructure Extension and Construction Cost Refund Agreement (Extension Agreement) attached to the stipulation as Exhibit A.

The Extension Agreement deviates from the Company’s existing line extension tariff in several significant ways: it allows “materials” as well as “Labor-In-Lieu of Cash”; it provides for developer refunds of contributed construction costs based on a revenue stream formula; and it provides a waiver of all Company construction overheads associated with the project.  Staff believes that potential problems arising from tariff deviation can be resolved by minor modifications to existing line extension tariffs and clarification within the extension agreement.

The following Staff comments will describe the issues of concern and propose modifications to resolve the potential problems.  Staff’s objection to the Stipulation and Settlement Agreement will continue unless these issues are satisfactorily addressed.

MATERIALS-IN-LIEU OF CASH

Under the existing line extension tariffs, developers requesting service to a new subdivision must contribute 100% of the costs required for United Water to install distribution facilities or they may provide a contractor to install water supply materials provided by United Water.  The tariffs do not currently allow the developer to obtain water supply materials from any source other than the Company.  However, the Extension Agreement with Hidden Springs does allow the developer to furnish his own materials.

Staff believes that allowing developers to obtain water supply materials from suppliers other than United Water could drive down costs for developers and home buyers without negatively impacting the Company’s existing customers.  We therefore support the Company’s decision to allow Materials-in-Lieu of a cash contribution in this case.  However, we also believe that if this opportunity is made available to one developer it should be made available to all developers requesting an extension.  Staff recommends that the line extension tariffs be modified to allow materials as well as labor-in lieu of cash for all developers requesting water service.  The Company apparently agrees and has stated in its Stipulation on page 4 that it will file for approval of necessary changes to allow Materials-in-Lieu of cash.

DEVELOPER REFUNDS

The Extension Agreement between United Water and Hidden Springs requires that the developer provide the contractor, obtain all materials and otherwise pay most of the costs associated with the extension of water facilities to the Hidden Springs development.  The facilities consist of four components which include an off-site transmission main, storage and booster facilities, an on-site transmission main and on-site distribution facilities.  Once the facilities are completed, the developer will receive a refund from the Company for each new Hidden Springs customer connected to the system.  The initial refund is $450 and can increase or decrease depending upon the actual annual revenue generated by customers over a 36 month period.

The analysis used to justify the proposed refund was reviewed by the Commission Staff and found to be similar to the residential escrow formula previously used for line extensions.  Generally, the formula uses an assumed water supply investment and annual expense incurred to serve each new customer.  It then compares the revenue generated from a new customer to the estimated revenue requirement needed to serve that customer to determine the amount of refund (additional investment) that can be provided and still allow the Company to earn its authorized return.

While Staff does not necessarily disagree with the method used to determine the refund amount, current rules for extending facilities do not allow refunds of developer contributed capital/labor and we do not support refunds for line extension contributions.  However, Staff could support refunds for special facilities such as source of supply, storage and booster pumps.  These facilities have been identified as being system resources that benefit the general body of ratepayers and as such should be paid for by all customers.

Although the special facilities section of the existing rules require an unrefundable contribution of storage and booster pump costs, it is only applied in rare cases when projects are large or the facilities are needed immediately to provide adequate service.  Smaller developments generally utilize existing storage and booster facilities and are not required to directly contribute their costs.  Staff believes that it is inequitable to charge some developers directly for storage and booster facilities while allowing others to utilize the existing facilities paid for by all ratepayers.

Furthermore, it is Staff’s belief that the settlement in Case No. UWI-W-96-4 establishing existing line extension rules, intended that extension of on-site and off-site mainlines/distribution facilities be fully contributed without refund and special facilities such as supply, storage and boosters be ultimately paid for by all customers.  Therefore, given the somewhat speculative nature of the special facilities in these cases, Staff supports a developer advance and subsequent refund for supply, storage and booster facility costs.  Again, Staff does not support refund provisions for any on-site or off-site mainlines/distribution facilities (except vested interest refunds) and in no instance should refunds exceed the amount advanced for the special facilities.

Accordingly, Staff recommends that the special facilities portion of the Company’s line extension rules be modified to require a developer advance and refund based on the formula proposed for Hidden Springs.  Staff also recommends that the Extension Agreement be modified to limit total refunds to the actual cost of the special facilities contributed.

COMPANY OVERHEADS

The existing tariffs require that Company overheads for the project such as engineering review and inspection be contributed by the developer.  However, the Extension Agreement does not require any such contribution from the Hidden Springs for these fees.  The agreement indicates that the Company overheads are somehow factored into the calculation of the refund amount and therefore should not be collected from the developer.  While Staff agrees that project costs including Company overheads associated with special facilities should be refundable, and does not necessarily oppose incorporating special facility overheads into the refund formula, we do not support a waiver or refund of overhead fees associated with mainline/distribution facilities.

The overhead fees associated with mainline/distribution facilities are designed to reimburse the Company for expenses it incurs and are not refundable.  If these costs are not collected from the developer, then the general body of ratepayers will have to pay.  Moreover, it is unfair to allow these fees to be waived for one developer and not another.  Therefore, Staff recommends that the Extension Agreement be modified to distinguish between Company overheads associated with special facilities and those associated with mainline/distribution facilities.  Total refunds for special facility costs can then be adjusted to account for Company overheads incurred but left uncollected.  Staff recommends that overhead fees associated with mainline/distribution facilities be collected from Hidden Springs at the same time they would be collected from any other developer.

Respectfully submitted this                        day of June 1998.

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Deputy Attorney General

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