BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)

OF WARM SPRINGS MESA, INC. TO)CASE NO.WSM-W-95-2

REVISE AND INCREASE ITS RATES)

CHARGED FOR WATER SERVICE)ORDER NO.  26081

                                                                    )

On April 21, 1995 and April 28, 1995, Warm Springs Mesa, Inc. (Warm Springs or Company) filed two Applications to increase its rates and charges for water utility services.  Warm Springs’ first Application (Case No. WSM-W-95-2) sought approval to increase its rate from $1.06 to $1.52 per 1,000 gallons of water use in excess of 4,000 gallons.  Warm Springs’ second Application (Case No. WSM-W-95-3) requested approval to increase the same rate from $1.52 to $1.546.  The Company in both cases requested that the new rates be effective May 31, 1995.  On May 17, 1995, the Commission issued Order No. 26017 suspending the effective date of the proposed rates for a period of 90 days from May 31, 1995, or until such time as the Commission issues an Order accepting, rejecting or modifying the Applications.  On June 13, 1995, Warm Springs filed a Motion requesting that the proceeding in Case No. WSM-W-95-3 be delayed an additional 90 days, and the Commission subsequently issued Order No. 26062 granting the Company’s request.  Warm Springs’ Motion and Order No. 26062 issued as a result of the Motion had no effect on this Case No. WSM-W-95-2.

CASE NO. WSM-W-95-2

Warm Springs is a water company serving approximately 300 customers in the Warm Springs Mesa subdivision in Boise, Idaho.  Warm Springs’ Application in this case is premised on the Commission’s Order No. 25445 issued in a previous Warm Springs rate case.  In the earlier case (Case No. WSM-W-93-2), Warm Springs indicated that a portion of its water distribution system located in the lower Mesa was deteriorating and needed to be replaced.  Because the lower portion of the Mesa also needed a sewer system, the city of Boise proposed a joint agreement between the city, the Ada County Highway District, and Warm Springs to complete the lower Mesa water system rebuild, sewer placement and street paving as a shared project completed by one contractor.  Warm Springs’ estimated share of the total cost was $150,000.  In Order No. 25455, the Commission encouraged Warm Springs to participate in the city’s joint proposal and stated “that if the Company participates in the collaborative effort, its investment in the rebuild up to the $150,000 estimate will automatically be included in rate base following an audit by Staff of the reasonableness of the investment, and rates will be adjusted accordingly.”  In this case, Warm Springs requested that approximately $214,000 related to the lower Mesa rebuild be included in rate base.

On May 19, 1995, the Commission issued a Notice of Modified Procedure to notify interested parties to file written comments in this case no later than June 19, 1995.  Written comments were filed by the Commission Staff, the Warm Springs Neighborhood Association, and three individual water customers.  None of the interested parties requested a hearing.

STAFF COMMENTS

The original estimates of $150,000 consisted of $115,000 labor and $35,000 for material.  Staff determined that the actual labor cost was $113,165 and the actual material cost was approximately $41,000, for a total labor and materials cost for the Mesa rebuild of  $154,171.  Staff also detemined an allowance for funds used during construction (AFUDC) in the amount of $13,904 was associated with the lower Mesa rebuild.

Staff also audited the expenses incurred in installing fire hydrants in the lower Mesa.  In its previous rate case, Warm Springs testified that it planned to install nine fire hydrants in the lower Mesa area at an estimated cost of $13,500.  Staff determined eight fire hydrants actually were installed at a cost of $10,951.  The fire hydrants were not a part of the rebuild costs approved by the Commission in Order No. 25445.  Staff stated the costs to install the hydrants appear reasonable and prudent and, because the hydrants are not a revenue producing asset, Staff did not oppose including the installation costs, plus associated AFUDC in the amount of $351, in Warm Springs’ rate base.

Staff did not recommend that additional expenses claimed by Warm Springs be capitalized and included in rates, stating that the additional expenses are not appropriate to rate base or should be included in rate base only after a more formal rate proceeding in which the issues can be closely examined.  Accordingly, Staff recommended including labor and material costs in the amount of $154,171, plus AFUDC in the amount of $13,904 for the lower Mesa rebuild, and $10,951 plus associated AFUDC of $351 for the fire hydrants,  in rate base in this proceeding.  If approved as Staff recommended, Warm Springs’ rate per 1,000 gallons of water use in excess of 4,000 gallons would increase from $1.06 to $1.48.

PUBLIC COMMENTS

In its comments, the Warm Springs Neighborhood Association (Association) stated it had “no objection to a 1995 increase based upon the rebuild of the lower Mesa system which was presented to us as a $150,000 project by [Warm Springs] officers.”  However, the Association recommended that the difference between the original estimate of $150,000 and the $214,519 requested by Warm Springs’ be closely scrutinized.  Citing past experience with Warm Springs’ use of “unconventional accounting practices,” the Association stated it has questions regarding expenditures for the rebuild that caused it to exceed the $150,000 estimate.

Two primary concerns were raised in comments filed by A.E. McGinnis.  Recognizing that Warm Springs may have spent money to drill new wells or redrill existing wells, McGinnis asked that the Commission verify that those costs were not expended to increase water flow to supply additional houses constructed in recent years in the upper area of the subdivision.  The second concern was in regard to the new fire hydrants.  McGinnis suggested the new hydrants may have been added for the benefit of the new portion of the subdivision, but conceded that recovery for the hydrants would “presumably be a just request” if they benefitted the total subdivision.  McGinnis suggested that any rate increase approved in this case should be temporary and should have a definite termination.

Written comments filed by Helen and Jerry Yelton stated opposition to “the huge increase in rates requested by Warm Springs.”  Yelton stated it was their understanding the 19.02% increase approved for Warm Springs in March 1994 included $150,000 to rebuild the lower Mesa system.

Late comments were filed by Jack Trueblood on June 22, 1995.  Trueblood objected to including the fire hydrants in rate base unless Warm Springs “was required by Commission action or code to place them for protection of the lower Mesa.”  Trueblood apparently objects to any rate increase for Warm Springs and stated:  “Nothing for the benefit of the customer was ever done freely and willingly by this company, and only minimal service and improvements as required by law have been provided.”

DISCUSSION

In Warm Springs’ rate case last year, the Commission approved a rate increase and in addition discussed the problems existing in the lower Mesa water system.  The Commission encouraged Warm Springs to participate in a collaborative effort to rebuild the lower Mesa system along with sewer and road improvements.  Warm Springs’ incentive to cooperate was the Commission’s promise to approve the water system  rebuild costs up to the $150,000 estimate without requiring the utility to file a new rate case.  The Commission in Order No. 25445 found “that if the Company participates in the collaborative effort, its investment in the rebuild up to the $150,000 estimate will automatically be included in its rate base following an audit by Staff of the reasonableness of the investment, and rates will be adjusted accordingly.”  Order No. 25445 thus was clear that Warm Springs’ rebuild of the lower Mesa water system was preapproved at a cost of $150,000 if the Company participated in the collaborative project, and that Warm Springs’ rates would be increased following completion by including the rebuild costs in rate base.  The Order also made it clear that Warm Springs need not file a rate case if it cooperated with the collaborative project and sought to increase rates only by including rebuild costs of $150,000 in its rate base.

Rather than simply requesting an adjustment of rates to include rebuild costs of $150,000 in rate base, Warm Springs elected to file a rate case with total rebuild costs of $214,490.28, including costs to install fire hydrants, included in rate base.  The filing of a rate case raised at least two questions:  Did Warm Springs cooperate with the collaborative rebuild project and, if so, why was the amount requested significantly higher than the original cost estimate?

Staff audited Warm Springs’ records relating to the rebuild and determined that the Company did participate in the collaborative project, although the Company also initiated work on its own by hiring the contractor to begin rebuild work prior to commencement of the collaborative project.  Because the contractor performed work for Warm Springs at the same rate as set for the cooperative project, Staff determined that Warm Springs’ initiation of the work did not by itself increase the cost to Warm Springs.  Staff did determine, however, that some costs and fees claimed by Warm Springs should not be included in rate base.  For example, the Company claimed an appraisal fee ($4,450), title fees ($1,321) and loan fees ($18,500) that Staff stated should not be included in rate base.

The other primary difference between Warm Springs’ request and Staff’s recommendation relates to costs Staff could not verify as actual expenditures by Warm Springs or could not confirm were expended as part of the lower Mesa rebuild.  For example, Staff determined the actual cost for material and labor paid by Warm Springs by auditing the checks issued by the Company to the contractor and making comparisons with the contract terms.  The Company claims it incurred additional costs not necessarily reflected in payments made to the contractor.  Staff determined the verifiable total costs for the Mesa rebuild were $154,171.

We accept Staff’s determination of the costs incurred by Warm Springs.  Absent a more formal proceeding in which additional expenses can be examined, we agree that the actual payments issued by Warm Springs are the best way to determine in this case the rebuild costs incurred by the Company.  If Warm Springs believes it can show it legitimately incurred additional expenses, it can present its claims in a subsequent rate case.  Thus we find the expenses to rebuild the lower Mesa to be included in rate base are $154,171, and note that the amount approximates the amount of the original estimate.

Staff also recommended AFUDC in the amount of $13,904 relating to the rebuild be included in rate base.  The Commission normally includes AFUDC in rate base once a construction project is completed and the improvement itself is properly included in rate base.  In fact, the Commission is required by law to allow for AFUDC in certain circumstances.  See Idaho Code § 61-502A (Commission must include AFUDC when construction work in progress is excluded from rate base).  Accordingly, we find AFUDC of $13,904 relating to the rebuild to be appropriately included in Warm Springs’ rate base.

Finally, Staff recommended that costs to install eight fire hydrants in the lower Mesa be included in Warm Springs’ rate base.  Staff determined the cost to install the hydrants totaled $10,951, and associated AFUDC is $351.  Staff recommended including these costs in rate base because the costs appear reasonable and prudent.  Staff also noted that the hydrants are not revenue producing assets.  Thus, the negative effect of excluding the hydrants from rate base treatment would not be offset by any revenue production.

We accept Staff’s recommendation to include the fire hydrant installation costs, and associated AFUDC, as determined by Staff in rate base.  Installation of the hydrants significantly increased fire protection capability in the lower Mesa, and the installation costs appear reasonable.  We also note that including the hydrants plus AFUDC in rate base increases Warm Springs’ rates only .031¢ per 1,000 gallons of usage.

Rate base treatment for expenditures in the lower Mesa rebuild and the fire hydrants allows Warm Springs to recover these capital expenditures over the life of the assets.  During the recovery period of 30-50 years, Warm Springs will earn a return on the undepreciated portion of the investment included in rate base.  Every general rate case where rates are set includes a complete reassessment of investment, expenses and revenues.  No investment is ever “permanently” included in rates.  As plant depreciates over its projected life, the annual cost of operating the plant may decrease or increase, depending on what happens to operating and maintenance costs.  The setting of rates through the rate base treatment allows the customers to pay for the plant over a longer period of time, thus reducing the current costs they would other­wise pay.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

Warm Springs is a water company as set forth by Idaho Code § 61-124, and is subject to the Commission’s jurisdiction in this matter pursuant to Idaho Code §§ 61-301 and -307.

The appropriate amount of costs associated with the rebuild of the lower Mesa water system to be included in rate base in this case is $154,171.  We also find that AFUDC in the amount of $13,904 is reasonable and appropriate and should be included in rate base.

It is reasonable and just to include installation costs of $10,951 plus AFUDC of $351 for the fire hydrants in Warm Springs’ rate base.

The rates resulting from the additions to rate base approved in this Order increase Warm Springs’ rates from $1.06 to $1.48 per 1,000 gallons of water consumed in excess of 4,000 gallons, and are fair, just and reasonable.

O R D E R

IT IS HEREBY ORDERED that Warm Springs is authorized to file tariffs of rates and charges in compliance with the terms of this Order, to be effective for water bills rendered on or after three working days after the tariffs are filed with the Commission.

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 with regard to any matter decided in 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              day of June 1995.

RALPH NELSON, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

JR\O-WSM-W-95-2.WS2