TO:WELDON STUTZMAN, WORKING FILE

FROM:DON OLIASON

SUBJECT:ENGINEERING STAFF COMMENTS  --  WSM-W-95-2,  APPLICATION OF WARM SPRINGS MESA WATER CO. FOR INCREASED RATES

DATE:JUNE 14, 1995

In its last rate case (WSM-W-93-2), the Warm Springs Mesa Water Co. (WSM) indicated that a portion of its water distribution system, located in the lower Mesa, was deteriorating, of small diameter pipe and needed to be replaced. WSM referred to this pipe replacement as the "Mesa refit," and for consistency I will continue the use of the term Mesa refit. Because the lower portion of the Mesa also needed sewers, the City of Boise had proposed a joint agreement between itself, the Ada County Highway District and WSM for sewer, paving and the Mesa refit as a shared project to be done by one contractor. WSM's share of the total cost was to be $150,000. The City of Boise estimated that if the water line replacement were to be done as an independent project, it would cost $200,000 and it recommended the joint project to be done by one contractor. In public testimony, customers supported the joint project.

In Order No. 25445, the Commission encouraged WSM to participate in the City's proposal and said, "We find, therefore, 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. If, on the other hand, the Company chooses to proceed independently with the rebuild, it must file a new application for inclusion of that investment in rate base and bear the burden of proving that it chose the most cost effective course of action."

In the current case, the Applicant requests that some $214,000 be included in rate base. It includes expenditures not anticipated at the time of the original Mesa refit estimate.

In the execution of the refit project, WSM pulled back a portion of the work from the City's contractor, and hired the City's contractor.

DID THE MESA REFIT COST MORE BECAUSE WSM PULLED A PORTION OF THE WORK OUT OF THE JOINT PROJECT?

The original estimate of $150,000 breaks down to $115,000 for labor and $35,000 for materials. When WSM pulled some of the refit work out of the City's contract, the contractor agreed to work for WSM at the same unit prices so WSM's action did not increase the refit cost. The total labor cost turned out to be $113,165 (See Exhibit No. 2).

Actual cost for materials was $41,000 or $5,000 over the estimate. Part of the variance, about $2,000, was due to WSM installing three extra valves for the purpose of improving system operation. I agree that installation of the extra valves was appropriate. The remainder of the variance was identified as an estimating error. Mr. Wise advises that he simply made a mistake and missed numerous flanges and fittings when he made out the material estimate.

The total cost of labor and materials for the Mesa refit was $154,171 which compares favorably with the $150,000 estimate. The variance from the estimate was less than 3% which very low for this size of job.

FIRE HYDRANTS

In the previous WSM rate case, Mr. Wise testified that he planned to install 9 fire hydrants in the lower Mesa area at an estimated cost of $13,500.

Eight hydrants were installed and I agree that the ninth is not necessary. Total installed cost of the 8 hydrants was $10,951 (See Exhibit No. 1). I recommend that the cost of the 8 fire hydrants be put in rate base at an appropriate time.

 Fire hydrants were not a part of the refit project, therefore I am identifying their cost separately. Some valves and fittings for the fire hydrants were inadvertently charged to the Mesa refit. The primary purpose of Exhibit No. 1 was to identify any material or labor charged incorrectly to the refit project. Eight hundred feet of water main was incorrectly charged and Mr. Wise advised the two invoices for explosives should not have been charged.

RATES

No change is proposed in the monthly minimum charge.

Staff Accountant Faunce separated the revenue requirement into four segments which she discusses in her comments. Exhibit No. 3 shows the incremental rate effect for each of the four segments of revenue requirement.

The largest segment is the Mesa refit which causes the rate to increase from the current $1.06/1000 gallons to $1.35. The total revenue requirement causes the rate to increase from $1.06/1000 gallons to $1.48.

RATE INCREASE EFFECT ON MONTHLY BILLS

Exhibit No. 4 shows the percentage increase in a customer's monthly bill at different levels of consumption. In general, a customer's monthly summer bill will increase about 30%.

COMPARE WSM MONTHLY BILLS WITH OTHER WATER COMPANIES

Exhibit No. 5 shows monthly bills for WSM and other companies for water usage from 5,000 gallons to 105,000 gallons. Note that WSM and Boise Water Corp. bills are in bold print for ease of comparison. The proposed higher rates for WSM produce bills that are almost the same as those for Boise Water Corp.

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