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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)

WARM SPRINGS MESA, INC. TO REVISE)CASE NOS.WSM-W-95-2

AND INCREASE ITS RATES CHARGED FOR)WSM-W-95-3

WATER SERVICE.)

)STAFF COMMENTS

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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) requests 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) seeks 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 may issue an Order accepting, rejecting or modifying the Applications.

CASE NO. WSM-W-95-2

Warm Springs’ Application in this case is premised on the Commission’s Order No. 25445 as it relates to the rebuild of the lower Mesa water system.  In its previous rate case (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 line, the city of Boise proposed a joint Agreement between the city, the Ada County Highway District, and Warm Springs to complete the lower Mesa rebuild, sewer placement and street paving as a shared project done 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 requests approximately $214,000 related to the lower Mesa rebuild be included in rate base.

The original estimate of $150,000 consisted of $115,000 labor and $35,000 for material.  Staff has determined that the actual labor cost totalled $113,165 and the actual material cost was approximately $41,000.  Thus the total cost of labor and materials for the Mesa rebuild was $154,171, which compares favorably with the $150,000 original estimate.

Staff also believes an allowance for funds used during construction (AFUDC) in the amount of $13,904 is appropriate for inclusion in rate base in this proceeding.  The Commission normally allows AFUDC and Staff believes it is appropriate in this case even though AFUDC was not addressed in Order No. 25445.  Staff has analyzed the invoices and prepared an AFUDC analysis in Attachment No. 1.  The attachment shows the invoice number, the Company, the date shipped, an interest rate of 12% authorized in Order No. 25445, the months in production, and the total AFUDC that should be capitalized.  Staff recommends that $13,904 AFUDC be capitalized for the lower distribution replacement.

Also in its previous rate case, the Warm Springs testified that it planned to install nine fire hydrants in the lower Mesa area at an estimated cost of $13,500.  Eight fire hydrants actually were installed at a cost of $10,951.  Installation of the fire hydrants may appropriately be included in rate base, although the fire hydrants were not a part of the rebuild costs approved by the Commission in Order No. 25445.  The costs to install the hydrants appears reasonable and prudent and, because the hydrants are not a revenue producing asset, Staff does not oppose including the installation costs, plus associated AFUDC in the amount of $351, in Warm Springs’ rate base.

Staff does not recommend that the additional expenses claimed by Warm Springs be included in rates, at least in this modified proceeding.  Some of the additional expenses associated with the rebuild are not appropriate for rate base or should be included in rate base only after a more formal rate proceeding in which the issues can be more closely examined.  The Company has identified an appraisal fee of $4,450, title fees of $1,321, loan fees of $18,500 and interest to April 14, 1995 of $13,833.  Staff does not believe the first three items are properly included in rate base, which are expenses related to debt issuance and thus are properly recovered over the life of the loan through a higher interest cost in the capital structure.  For this proceeding the amortized costs with the adjusted capital structure will not increase the overall rate of return authorized in Order No. 25445.  As previously discussed, Staff recommends including AFUDC of $13,904, which will cover the interest expense.

Staff also took exception to some of the rebuild costs claimed by Warm Springs.  For example, Staff relied on the cancelled checks rather than the invoices to determine the amounts paid to the contractor to determine labor costs.  The invoices show a deduction for retainage, but Staff was not able to determine that Warm Springs and the contractor actually included retainage in their construction agreement.  Warm Springs now claims that $330 was deducted from the contractors’ bill relating to water samples and that an amount was deducted for blasting work performed by Warm Springs.  Without an opportunity to examine these issues in a more formal rate proceeding, Staff believes the cancelled checks showing the amounts paid are the best evidence of the actual labor and material costs associated with the lower Mesa rebuild.  Accordingly, Staff recommends 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 at this time.

CASE NO. WSM-W-95-3

On June 13, 1995, Warm Springs submitted a written request to the Commission Secretary asking that the proceeding regarding its second Application be delayed for a period of up to 90 days.  Warm Springs’ second Application is premised on Order No. 25970 in which the Commission authorized Warm Springs to borrow funds from First Security Bank in the amount of $40,300.  Warm Springs contends the amount of $12,300 was necessary to provide replacement parts to the existing 12" well (Well No. 2) and its 75 horsepower turbine pump, and requests that that amount be included in rate base.  In its request to postpone the proceedings in this case, Warm Springs indicated it has been necessary to remove from service Well No. 2 to overhaul the 75 hp turbine pump.  Apparently the rebuilding of Well No. 2 and its turbine pump has not been entirely successful, and Warm Springs stated that investigations are continuing relative to the lack of volume being produced by the improved Well No. 2.  While Well No. 2 is being rebuilt, Warm Springs put Well No. 3 into service to provide water to its customers.  Because Well No. 2 is not functioning adequately, Warm Springs apparently plans to continue using Well No. 3, and indicated in its request for postponement that “Well No. 3 should be included in Warm Springs Mesa, Inc. rate base.”  Warm Springs has indicated it plans to amend its Application in Case No. WSM-W-95-3.

Given the uncertainty regarding the refurbishing of Well No. 2 and its pump, Staff supports Warm Springs’ request to postpone proceeding on its Application in Case No. WSM-95-W-3.  Without further evidence or indication from Warm Springs that the Well No. 2 rebuild has been successful, Staff cannot recommend that the amount requested by Warm Springs be included in rate base.  Accordingly, Staff recommends the Commission issue an Order continuing suspension of the proposed rates relating to the rebuild of Well No. 2 and its pump, and establish a new comment period following the filing of an amended Application by Warm Springs.

RATE DESIGN

Staff has prepared Attachment No. 2 which shows the revenue requirement and Attachment No. 3 which shows income and the rate base effect.  Staff separated the revenue requirement in four segments:  Costs for the lower Mesa rebuild, AFUDC for the rebuild, costs of installation of the fire hydrants, and AFUDC relating to the fire hydrants.  Attachment No. 4 shows the incremental rate effect for each of the four segments of revenue requirement.  The largest segment is the lower Mesa rebuild which causes the rate to increase from the current $1.06 per 1,000 gallons to $1.35.

Attachment No. 5 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 approximately 30%.  Attachment No. 6 shows monthly bills for Warm Springs and other companies for water usage from 5,000 gallons to 105,000 gallons.  The proposed rates for Warm Springs produced bills that are approximately the same as those for Boise Water (since renamed United Water Idaho), which serves the greater Boise metropolitan area.

PUBLIC COMMENTS

The Staff has received three letters from Warm Springs ratepayers protesting the increase in rates on top of the 19% increase authorized in Order No. 25445.  The Warm Springs Mesa Homeowners Association indicated that it would not ask for a hearing in this case, but cautioned that Warm Springs’ calculations are high and asks the Commission to closely scrutinize the figures Warm Springs provided.

RESPECTFULLY submitted this            day of June 1995.

Weldon B. Stutzman

Deputy Attorney General

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