DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

MYRNA WALTERS

TONYA CLARK

STEPHANIE MILLER

DAVID SCHUNKE

DON HOWELL

TERRI CARLOCK

MADONNA FAUNCE

DON OLIASON

GARY RICHARDSON

WORKING FILE

FROM:WELDON STUTZMAN

DATE:JUNE 22, 1995

RE:CASE NO. WSM-W-95-2; WARM SPRINGS’ APPLICATION TO

REVISE AND INCREASE RATES CHARGED FOR WATER SERVICE

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 may issue 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.

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 two individual water customers.  None of the interested parties requested a hearing.

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 a 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 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 approximately $214,000 related to the lower Mesa rebuild be included in rate base.

STAFF COMMENTS

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.  Thus, Staff recommended  that $13,904 AFUDC be capitalized for the lower distribution replacement.

Also 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.  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 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 more 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 1000 gallons of water use in excess of 4000 gallons will increase from $1.06 to $1.475.  If capitalization of the fire hydrants is not included, the rate rises to $1.444.

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.  Some concerns voiced by Trueblood were determined in Warm Springs’ previous rate case or are for discussion in Case No. WSM-W-95-3.  Trueblood objects 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 states:  “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.”

Commission Decision:

Should a rate increase be approved for Warm Springs?

If so, should the increase related to the rebuild be as requested by Warm Springs or as recommended by Staff?

Should the fire hydrants be included in rate base and rates adjusted accordingly?

Weldon B. Stutzman

vld/M-WSM-W-95-2.ws2