

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF DIAMOND BAR) CASE NO. DIA-W-15-01
ESTATES WATER COMPANY'S)
APPLICATION FOR AUTHORITY TO) ORDER NO. 33578
INCREASE ITS RATES AND CHARGES FOR)
WATER SERVICE IN THE STATE OF)
IDAHO)
)

In December 2015, Diamond Bar Estates Water Company filed a general rate case Application to increase its rates for water service by about 79%, which would produce about \$20,910 more in annual revenue than the prior year. Diamond Bar has not had a rate increase since its last rate case in 2007. Order No. 30455.

The Commission issued a Notice of Application, Notice of Modified Procedure, and Order suspending the effective date until July 1, 2016. Order No. 33452. Commission Staff conducted a public workshop on April 19, 2016, that was attended by more than 30 Diamond Bar customers. Staff conducted an audit and filed written comments summarizing its findings and recommendations. Diamond Bar filed a timely reply. On June 7, 2016, the Commission conducted a public hearing where numerous customers appeared – six of whom gave comments for the record. The Commission received more than 18 written comments.

In light of issues raised by customers, the Commission identified a number of questions unresolved by the existing record. Accordingly, the Commission further suspended the Application's effective date to August 30, 2016 and directed the Company to provide responses to six questions. The Company submitted responses, and Staff filed an addendum to its comments. The Company followed with a brief reply.

Upon our thorough review of the record, including comments by Staff and the Company, as well as the many comments by Diamond Bar's customers, we now issue the following Order allowing an overall revenue increase of 46.37%.

BACKGROUND

Diamond Bar Estates Water Company is a water corporation providing water service to the public within the State of Idaho, *Idaho Code* §§ 61-124, 61-125, and is operating as a public utility. *Idaho Code* § 61-129. The Commission has jurisdiction over this matter as

authorized by Title 61 of the Idaho Code, and more particularly *Idaho Code* §§ 61-501, 61-502, 61-503, 61-520, and 61-523.

The Commission granted Diamond Bar a Certificate of Public Convenience and Necessity in 2003 to serve the Diamond Bar Estates subdivision. Order No. 29247. Diamond Bar's service territory was expanded in 2004 to include the Boekel Estates Subdivision. Order No. 29556.

A. System Description

Water provided by Diamond Bar comes from two nearby wells – an operating well, and a backup well. Order No. 30455 at 2. Diamond Bar provides water service to 44 customers near Rathdrum in Kootenai County, Idaho. Most of Diamond Bar's customers maintain lots of about five acres. Average annual water use per customer typically exceeds 300,000 gallons.

The Company's current rate structure is comprised of two parts: (1) a minimum monthly charge of \$29.00 with a monthly volume allowance of 5,500 gallons; and (2) a single-block commodity charge of \$0.80 per 1,000 gallons for consumption over 5,500 gallons.

B. Current Application

Diamond Bar's Application requests authority to: (1) increase water rates by 79.39%; and (2) increase its new-customer meter-installation fee from \$310 to \$475. The Company proposes raising the monthly minimum rate from \$29.00 for the first 5,500 gallons of water to \$52.02 per month, and raising the commodity rate for usage above 5,500 gallons per month from \$0.80 per 1,000 gallons (above the initial 5,500 gallons) to \$1.44 per 1000 gallons. Proposed Amended Tariff. Diamond Bar proposes a rate base of \$40,398, reflecting accumulated depreciation of \$12,669, but also including a working capital allowance of \$4,679 – or 1/8 of the Company's operation and maintenance expenses. Application at 1-2; Exh. 1.

According to Diamond Bar, the Company has been operating at a loss, and the proposed increases, if approved, would enable it to recover various expenses. Application at 2. The biggest expense that Diamond Bar seeks to recover is for costs incurred from multiple pump failures. *Id.* The Company also asks to recover costs of "bookkeeping and customer-service related services," and recovery for expenses from "water testing, meter reading, pump service and on-call duties." *Id.*; Exh. 2. In addition, the Company asks to recover rate case expenses for this filing, and the cost of electricity to run its pumps. *Id.*

CUSTOMER COMMENTS

The Commission received about 22 written comments from customers, although a few customers filed more than one comment. All opposed the proposed rate increase. Over 30 customers attended Staff's workshop in April 2016, asking questions about the process, expressing concerns about the proposed increases, and suggesting areas for investigation by Staff. At least ten customers attended the public hearing on June 7, 2016; six customers offered testimony.

The Commission appreciates the customers' participation in Diamond Bar's rate case. Customer involvement enables the Commission to get a more complete picture of the issues from a critical perspective – that of the individuals directly affected by the Company's service. It is clear to the Commission, both from the detailed written submissions and the thoughtful testimony provided at the public hearing, that customers put a great deal of time and effort into their comments. Those efforts have not gone unnoticed. We address the following areas of concern expressed by customers.

1. Hardship due to fixed income and suggested alternatives

Several customers commented that they or their neighbors were retired, on fixed incomes, or had not received a raise in two or more years. One customer questioned how the proposed increases compare to the national consumer price index (CPI) and national labor cost increases. More than one asserted that Diamond Bar's rates are already higher than most other area water companies and would be far above other area companies with the rate increase. Many expressed that, with the proposed rate hike, they or others in the community would be unable to afford water sufficient to maintain their five-acre properties, thus causing everyone's property values to plummet.

A few customers suggested gradual step increases rather than the proposed large, immediate and permanent increase. Another suggestion was to fund needed improvements through a levy, temporary surcharge, or special assessment, rather than by raising rates.

Commission findings: These customer concerns go to our duty to ensure that rates are just and reasonable, under *Idaho Code* § 61-502. This obligation must be balanced with our duty – of equal importance – to ensure that rates are sufficient to ensure adequate service. *Idaho Code* § 61-502. The Idaho Supreme Court has held, “It is the duty of the Commission not only to fix just and reasonable, nondiscriminatory rates, but to see that adequate service is furnished

and in fixing such rates to allow the utility furnishing the service to make a just and reasonable profit or return on its investment.” *Application of Pacific Tel. & Tel. Co.*, 71 Idaho 476, 480, 233 P.2d 1024, 1026 (1951).

While we are mindful of the hardships that fixed-income customers may face from a rate increase, we must consider those concerns in concert with the need to ensure adequate, safe, and reliable service. *See Idaho Code* §§ 61-302, 61-502. Thus, our goal is to minimize negative impacts to customers – whether in rate increases, surcharges, or otherwise – but to also ensure the Company’s ability to provide adequate, safe and reliable service. Our balancing of these competing concerns is implicit in our findings herein.

2. Concerns about the Company’s management

Several customers raised concerns that the alleged need for such a large rate increase is due to Company mismanagement. One customer suggested that money should have been set aside for replacement and maintenance of the water system over the years. Others complained that Company owner Robert Turnipseed’s reluctance to embrace technology has caused inefficiencies for which customers pay the cost.

A few customers expressed frustration that they were asked multiple times to stop irrigating due to system outages. One customer noted that a few outages caused the customer’s re-circulating pumps to fail, requiring their replacement at a cost of \$400-\$500 each. The customer asked Robert Turnipseed to alert him in the event of an outage so he could avoid having to replace his re-circulating pump, and Mr. Turnipseed did alert him once. However, the next time there was an outage, the customer was not notified, and he lost another pump. The customer stated that when he complained, Mr. Turnipseed’s son was very rude, saying he could not be bothered, and hanging up on the customer. More than one customer from the Diamond Bar Estates Home Owner’s Association suggested that the Company should send a group text to alert customers of any outage, and to alert them once the system is again fully operational.

At hearing, at least one customer expressed concern about the Company’s promptness in alerting customers of contaminations at the wells, prompting one of our inquiries in Order No. 33547. The Company responded that it had provided adequate notice to customers about the presence of coliform in the water in 2012, and that retesting following the incident showed the absence of coliform thereafter. Company Response. Staff determined that Diamond Bar complied with IDEQ’s customer notification and testing requirements under IDAPA 58.01.08,

concerning the detection of coliform in the Company's wells in 2012, and to date. Staff Addendum at 7 (noting the Company sent a letter to customers within six days).

Commission findings: We find the customers' suggestion that the Company provide a text alert service to be innovative and reasonable. We encourage the Company to work with customers to devise a process through which customers can provide cell phone numbers to the Company to receive such alerts, both about a known outage and once the outage has been resolved. We further recommend that customers contact Commission Staff via the complaint hotline if customers and the Company are unable to come to mutual terms for establishing such a system.

As to concerns about the Company's management, we find insufficient evidence that the Company's use or non-use of available technologies has caused undue costs to customers. We note that even if there are advanced technologies that could achieve cost-saving efficiencies, there are costs to obtaining and learning to properly use them – costs which may offset the gains. However, we encourage the Company to consult with Commission Staff about ways to reduce costs.

Regarding the water contamination incident, we find that the Company complied with IDEQ requirements regarding customer notification, and water testing and retesting. According to IDEQ, coliform – the bacteria detected in Diamond Bar's system in 2012 – “are generally not harmful themselves . . . [but] are bacteria which are naturally present in the environment and are used as an indicator that other, potentially-harmful bacteria may be present.” Attachment A to Staff Addendum, at 2. Diamond Bar pursued the proper treatment “to chlorinate and flush the reservoir and distribution system.” Staff Addendum at 7. IDEQ requires a company to issue public notice “as soon as possible, at least within 30 days.” Attachment A to Staff Addendum, at 1. We find that Diamond Bar's notices to customers by mail, within a week, adhered to IDEQ's requirements.

3. Pump failures

The most talked-about concern was the many failures of the Company's main well pump in the last several years. Customers inquired whether the Company had taken sufficient precautions to avoid the pump failures, such as ensuring surge protection or installing lightning rods. Also, customers questioned the purchase of a 50 horse power (hp), then a 60 hp pump, despite a recommendation by the pump installer in 1994 to install a 25 hp pump. Several

customers asked if the pump was inadequately insured, if a warranty was properly pursued, and if other parties were otherwise liable for inferior workmanship or faulty electrical supply, so as to avoid the need for such a drastic rate increase. Customers expressed concern that the Company has not done enough to ensure against another pump failure. Specifically, customers noted that the Company has yet to install a “soft-start” for the well pump, as suggested by the engineering firm that the Company hired to investigate the pump failure. These concerns, which were the subject of inquiry in Order No. 33547, will be addressed below.

4. Role of the Commission

Finally, a few customers expressed concern whether the Commission would adequately look out for customers’ interests. One customer noted with suspicion that the Company’s consultant was once a Commission employee. Still, others expressed appreciation for the efforts by Commission Staff to investigate the matter, and for the Commissioners who conducted the public hearing in Rathdrum, and who stayed for an informal question and answer session after the hearing concluded.

The Staff workshops are intended to explain what a rate case is, how the Commission and Staff evaluate a case, and how customers can participate. We are encouraged that so many customers attended Staff’s workshop in this case. As Staff explained there, our role is to evaluate the evidence and information submitted by Staff, the Company, and customers, and to determine just, reasonable, and adequate rates, among other issues raised in the Company’s case. *See Idaho Code* § 61-502. We now address the Company’s and Staff’s proposals, and the customers’ remaining issues.

REVENUE REQUIREMENT

The Company requested a rate base of \$40,398, a return on equity¹ of 12%, annual expenses of \$29,665, and a revenue requirement of \$47,248. The Company proposed using a test year of 2014, with which Staff agreed. Staff recommends annual expenses of \$32,628, a rate base of \$32,945, a return on equity of 12%, and a revenue requirement of \$37,704. Staff proposes adjustments to the Company’s expenses, plant in service, and revenue.

A. Annual Expenses

Staff recommended adjusting the Company’s proposed total expenses of \$40,999, down to \$32,628. Staff’s proposed adjustments concern: (1) pump repairs and deferral

¹ Because the Company has no debt, its Rate of Return is equal to its Return on Equity, thus the terms are used interchangeably.

amortization; (2) rate case amortization; (3) water testing expenses; (4) power purchase expenses; and (5) salaries.

1. Pump repairs. Staff recommended adjustments related to expenses from the Company's well pump failures. The well pump failures were the issue of most concern to customers in their written comments and as expressed at the customer workshop and public hearing.

Staff investigated the pump failures and noted that there have been five since the last rate case in 2007. Staff indicated the main pump was replaced in 2010, 2012, 2014, and twice in 2015. Comments at 5. The 2010 pump replacement is not at issue in this case. Insurance covered much of the pump replacement costs from the 2012 failure, which was attributed to a nearby lightning strike. *Id.* Insurance covered a lesser portion of the 2014 failure. *Id.* When the pump failed again in June 2015, the Company did not file an insurance claim, but retained AEI Engineering Inc. to investigate the cause.

On Staff's examination of the record, Staff believes the primary cause of the pump motor failures was "that the 75 kWA transformer . . . was grossly undersized for the simultaneous operation and starting of the water system's four pumps." Staff Addendum at 4. Staff noted that the transformer, which supplies power to the well house, was provided by Kootenai Electric Cooperative (KEC), not Diamond Bar. *Id.* Using the National Electric Code, Staff calculated that the transformer should have been sized to supply at least 96 kWA when Diamond Bar's water system was first constructed in 1995, with a 50 hp well pump. *Id.* at 4-5. However, at that time, KEC provided a 75 kWA transformer. *Id.* After the Company installed a 60 hp pump in 2004, the transformer should have been sized to supply at least 109 kWA. *Id.* Staff determined that a new pad transformer was installed in late 2015, but Staff could not verify that it is large enough to meet pump house requirements. *Id.* at 5. Staff thus recommended that we direct the Company to ensure that KEC has replaced the 75 kWA transformer with a properly-sized transformer. *Id.* at 8.

Staff also determined that the transformer sizing problem was exacerbated by the transformer's lack of compatible phase configurations. *Id.* at 4-5, *citing* AEI Report (Attachment C to Staff Comments). Staff recommended that the Company replace its Delta type service drop with a Wye type service entry that is compatible with KEC's Wye transformer, and complies with KEC's current engineering guidelines. *Id.* at 8. To prevent future pump motor failures,

Staff recommended that the Company install a circuit breaker that would simultaneously disconnect all phases when any one phase is disconnected.²

As recently as August 2015, KEC's David Kahly reported that KEC's "transformer capacity is good." Exhibit 1 to Company Response; Staff Addendum at 5. According to Staff, "an engineer or journeyman electrician familiar with the National Electric Code should have determined that the transformer was grossly undersized." Staff Addendum at 5. Staff concluded that Diamond Bar received inadequate and incomplete advice from outside experts, before it consulted with AEI. *Id.* at 4-5.

In AEI's report to the Company, AEI attributed the pump failures to erratic power from KEC, and made four recommendations to prevent future failures: (1) improve grounding wires; (2) install additional surge protection; (3) upgrade the transformer, or replace the fuse disconnect; and (4) install a solid state soft starter. *Id.* at 6. Staff indicated the Company completed the first three, noting that the upgraded transformer (which was provided by KEC) was not included in rate base. Addressing our concerns in Order No. 33547, Staff stated, "It is unlikely that [the soft start] requirement was communicated to Diamond Bar prior to 2015," and that installation of a soft start would not have prevented every pump motor failure experienced by the Company. *Id.* at 6. For instance, "a soft start would not mitigate other potential causes [of pump failures], such as lightning." *Id.* Staff also noted that the soft start "is primarily a benefit to the electric company," and not to Diamond Bar. *Id.* at 7.

Commission findings: We first acknowledge and commend Diamond Bar's customers for their involvement and efforts in helping us frame our inquiry about the pump failures. With customers' comments, we were able to direct our questions to address the significance of the soft start, and the extent to which Diamond Bar knew or should have known about the cause of the pump failures.

We find it more likely than not that the pump failures were the result of an undersized transformer, combined with the effect of incompatible phase configurations, and single-phasing. We recognize that Diamond Bar relied on outside experts for technical advice. And we

² Staff explained that, in Diamond Bar's system, each phase of KEC's transformer is protected by a circuit breaker, and each of the well pump's three phases is protected by a fuse. Staff Addendum at 5-6. If a single fuse blows, "the load on the remaining phases will increase by approximately 73%," a condition called "single phasing." *Id.* at 6; see AEI Report at 1. According to Staff, single phasing is "a leading cause of three phase motor failure." *Id.* Installing a circuit breaker to disconnect all phases when any one phase is disconnected would shut off the pump, and help to prevent a pump failure.

believe that, prior to hiring AEI, Diamond Bar sought and received advice that was incorrect and inadequate. We also find that installation of a soft start would not necessarily have prevented the pump failures experienced by Diamond Bar.

We sympathize with Diamond Bar's customers, for whom pump failures were frustratingly recurrent. But as regulators, we must assess the prudence of a utility's actions given all the circumstances. Diamond Bar sought opinions and consulted technical experts to attempt to determine the cause of the pump failures. Only in hindsight is it evident that the Company was receiving incomplete and inaccurate information. Given the evidence, including that the transformer was "grossly under-sized," we will allow Diamond Bar to recover the costs of replacing the pumps, as discussed below. To avoid the likelihood of future pump failures, we direct the Company to: (1) confirm with KEC that the current transformer is adequately sized, per the National Electric Code; (2) replace its Delta type service drop with a Wye type service entry that is compatible with KEC's Wye transformer and complies with KEC's current engineering guidelines; and (3) install a circuit breaker that disconnects all phases simultaneously in the event any one phase is disconnected. Also, given the limited benefits but significant costs of installing the soft start, and with the knowledge that a soft start is primarily a benefit to the electric company and not the water utility customers, we will not order the Company to install a soft start.

2. Deferral amortization

The Company classified a pro forma adjustment of \$5,750 for pump repairs as Materials & Supplies – Operations & Maintenance. Because the Company requested a deferral and recovery of the costs, Staff removed the amount from operating expenses and booked it as a separate regulatory asset to be amortized. Comments at 6. The Company does not appear to dispute removing these costs as an operations expense, but disputes the amount Staff proposes to be placed in a deferral account for amortization. Reply at 2.

The Company asked to recover \$23,000 in expenses over four years, for the cost of keeping the pump system running in 2015. Staff disagrees with the Company's amortization proposal and instead recommends that the unrecovered investment of the failed pumps be placed in a deferral account to be amortized and recovered over the average remaining life of those pumps. Comments at 6. Staff suggests that this treatment is similar to that allowed by the Commission in Case No. PAC-E-12-08, Order No. 32701. In that case, the Commission

authorized creation of a regulatory asset associated with the remaining book value of an electric plant that was being forced to retire due to new Environmental Protection Agency standards. Here, given AEI's engineering report, Staff believes the Company's pump failures and need for replacements were the result of similarly unique circumstances.

The initial cost of the four replaced pumps was \$51,444. Staff proposed reducing the deferral amount by \$13,671 – the amount paid by insurance. Staff found no evidence that it was prudent for the Company to avoid filing an insurance claim after the June 2015 pump failure, and thus recommends reducing the deferral amount by an additional \$3,764 that the Company's policy would have covered had a claim been filed. Finally, Staff also recommended reducing the deferral amount by an additional \$2,751 – the accumulated depreciation for the pumps. The proposed remaining deferral amount is \$31,258. Staff recommends an amortization period of 18 years, the average remaining life of the pumps, resulting in an amortization expense of \$1,737 – an adjustment of \$4,013 less than that requested in the Company's Application.

The Company disputes removing the \$3,764 that Staff asserts would have been recovered had the Company filed an insurance claim on pump 4. Reply at 2. According to the Company, it “was warned that an additional insurance claim would result in the loss of insurance and that the Company may become uninsurable,” consequences that the Company deemed unacceptable. *Id.* In addition, the Company maintains that a four-year recovery period is better-suited than Staff's proposal of 18. Using a four-year period, the Company asserts, would “allow customers who benefitted from the upgrades to pay for them, rather than someone else later on.” *Id.* Further, the Company owner, Robert Turnipseed, paid most of the costs to fix the pumps from his retirement account; at age 84, he is unlikely to recover and use funds over an 18-year period. *Id.* The Company requests that a period less than 18 years would be more reasonable given the circumstances. *Id.*

Commission findings. We find Staff's proposed reduction from Operations & Maintenance expenses of \$5,750 in pump repairs – which the Company did not dispute – to be reasonable, and thus approve it. We next address the deferral account for the Company's unrecovered investment in pump replacements.

As already discussed, we are sympathetic to customers who were helpless to prevent four pump failures in as many years (a fifth pump failure in 2010 is not at issue here). However, given all the circumstances, we find it just and reasonable to allow the Company to recover its

investment of the four previous pumps in a deferral account. We further find it reasonable for the deferral account to be amortized and recovered over the average remaining life of those pumps – 18 years. Despite the personal circumstances of Diamond Bar’s owner, Mr. Turnipseed, this treatment is consistent with accounting treatment we would order for any other utility. *See* Order Nos. 30171 at 2 (finding reasonable, and approving, amortization of bonds over their remaining life); 29966 at 4 (capital investments should be depreciated over their useful life). Given the circumstances, we find that an 18-year amortization and recovery period applies a proper accounting treatment that also softens the impact on Diamond Bar customers.

We find it appropriate to allow the Company to recover pump replacement costs totaling \$31,258. This amount is the cost of replacing four pumps (\$51,444), less accumulated depreciation for the pumps (\$2,751), less the amount paid by insurance (\$13,671), and less the amount that would have been covered by insurance had the Company filed a claim (\$3,764). Regarding Diamond Bar’s unfiled insurance claim, the Company asserted that its insurance policy would have been discontinued had it filed the claim. We note that the Company is allowed insurance costs as an operating expense. We will not question the Company’s business decision not to file the claim. However, it would be unreasonable for us to allow the Company to recover an expense from Diamond Bar’s customers that was otherwise recoverable through insurance.

3. Rate case amortization. Staff recommends an amortization period for the rate case expense of six years – the average of the years between rate cases – rather than the Company’s requested four years. Comments at 7. Staff finds that most of the Company’s costs are reasonable, except \$200 related to preparing the 2015 annual report. Staff notes that the Company’s records indicate this was included under Contract Services – Professional, with an invoice dated 7/24/14, and should therefore be excluded from this rate case amortization. Staff thus recommends approving costs for this rate case of \$4,561, amortized over six years. The resulting rate case amortization expense is \$794, or a reduction of \$311 from the Company’s proposal.

The Company states that the \$200 should be allowed “as an annual expense going forward” because “there was no payment for the annual report preparation . . . for the test year.” Reply at 2-3. Staff agrees that the annual report is a proper annual expense going forward. However, because it is included in the base 2014 expense levels, the annual report cost is

reflected in the Staff expense numbers (i.e. the Company will recover the \$200 under Staff's proposed treatment). According to Staff, the cost should not (also) be included as a rate case expense.

Commission findings: We find it reasonable to set an amortization period of six years. We also find it appropriate to exclude the \$200 from the costs approved for this rate case, which the Company included in 2014 base expense levels. We thus approve rate case costs of \$4,561.

4. **Water testing.** The Company proposed a water testing expense of \$300. After consulting with the Idaho Department of Environmental Quality (IDEQ), Staff developed a list of required tests. Staff recommends increasing water testing costs by \$247 to an annualized water testing cost of \$547. The Company agrees to Staff's proposed adjustment. Reply at 3.

Commission findings: We find the agreed adjustment to be appropriate and approve the annual water testing cost of \$547.

5. **Power purchase expenses.** The Company proposed purchase power and fuel expenses of \$9,990, of which \$479 is claimed as an increase in Kootenai Electric power rates. Staff found that Kootenai Electric power rates have not increased since test year 2014 bills were issued. Staff therefore recommends rejecting the proposed \$479 increase. Also, Staff proposes a downward adjustment of \$437, to reflect removal of personal energy use by Diamond Bar's owners. Finally, Staff notes that \$405 of the total was related to natural gas use at the well house and was reclassified as miscellaneous expenses. Staff thus recommends adjusting the Company's proposed purchase power and fuel expenses downward by a total of \$1321. The Company indicates it is in agreement with Staff's proposed adjustments. Reply at 3.

Commission findings: We find the agreed adjustments are just and reasonable and thus approve purchase power and fuel expenses totaling \$8,669.

6. **Salary expenses.** Staff examined the Company's requested salaries for the water system operator and bookkeeper. Using data from the Bureau of Labor Statistics, Staff recommends reducing the water system operator salary expense by \$763, and the bookkeeper salary expense by \$2,625. The Company disagrees with Staff's adjustment, noting in particular that the Company's staff worked extra hours which Staff did not address. Reply at 3. The Company requests both the increased salary rate and the extra hours. *Id.*

Commission findings: We recognize that the Company's staff, as with many small water companies, has put considerable time and effort into operating and maintaining Diamond Bar. However, we find it reasonable and appropriate to use data from the Bureau of Labor Statistics to determine salary expenses. We therefore adopt Staff's recommended deductions, and approve Labor Operations and Maintenance expenses totaling \$9,752, and Labor Administration and General expenses totaling \$4,700.

B. Rate Base

The Commission approved a rate base in the Company's 2007 case of \$16,801. Order No. 30455 at 16. Staff reviewed the Company's schedules showing how the rate base amount has grown from \$16,801 to the requested rate base of \$40,398. In addition to the suggested expense-adjustments, which affect working capital, Staff proposed adjusting the Company's plant in service.

1. **Working capital.** The Company calculated working capital based on an eighth of the Company's operating expenses. Staff used the same methodology for calculating working capital. With Staff's five adjustments to the Company's expenses, the resulting working capital is \$3,452.

2. **Plant in service.** Staff made multiple requests for confirmation of the Company's plant in service calculations. After receiving no response, Staff calculated plant in service using the Company's responses to request for production and information gathered during Staff's audit of the Company's records.

Staff verified significant investments since the last rate case, including: new gate valves installed in 2007, a new delay timer and new water check valves in 2010, new booster pumps in 2011 and 2012, a sub monitor and lightning arrestor for the well pump and additional grounding wire in 2014, new well pumps and transformer pad with improved wiring to the pump house plus additional lightning arrestor and emergency bypass in 2015. Staff thus recommended total plant in service of \$39,670. Comments at 4. Staff recommended accumulated depreciation of \$10,177. Net plant in service is therefore \$29,493, which, added to working capital of \$3,452, yields Staff's recommended rate base of \$32,945.

The Company is in general agreement with Staff's proposed rate base except for the impact from deferral and amortization of those expense-related adjustments discussed above. See Reply at 1-2.

Commission findings: Based on our findings above, we find Staff’s proposed rate base of \$32,945 to be appropriate.

C. Rate of Return and Revenue Requirement Calculation

1. **Rate of return.** Both the Company and Staff recommend a rate of return of 12%. Staff agrees that the Company is currently completely owner-financed.

Commission findings: We find the agreed 12% rate of return to be fair and just and consistent with that which we have allowed in other small water company cases, and thus approve it.

2. **Revenue adjustment.** In its Application, the Company included \$642 in other revenue, described as a rebate from Kootenai Electric Cooperative, made to Bar Circle S Water – another water company owned by Diamond Bar’s owner, Robert Turnipseed. Staff recommends removing this amount from revenue for Diamond Bar’s rate case. With this adjustment, Staff proposes total revenue of \$25,696. In its Reply, the Company agrees to Staff’s adjustment and believes it is appropriate. Reply at 2.

Commission findings: We find the agreed adjustment to be reasonable and thus approve total revenues of \$25,696.

3. **Revenue requirement calculation.** In its Application, the Company proposed increasing its revenue requirement by 79.39%, from \$26,338 (2014 total revenue) to \$47,248 (requested revenue requirement). See Application at 1; Exhibit 3. For this calculation, the Company used a \$40,398 rate base, a 12% return on equity, and total operating expenses of \$37,434.

Applying Staff’s proposed \$32,945 rate base, 12% return on equity, total revenue adjusted down to \$25,696, and total expense adjusted down to \$32,628, Staff recommended the following revenue requirement:

Return on Rate Base - Tax Grossed Up	\$5,063
Net Loss - Tax Grossed Up	<u>\$6,945</u>
Revenue Increase Required above Test Year Revenues	\$12,008
Test Year Revenues	<u>\$25,696</u>
Total Gross Revenue Requirement	\$37,704
Revenue Increase %	46.73%

See Comments, Attachment K.

Commission findings: Consistent with our findings above, we approve a total gross revenue requirement of \$37,704.

RATE DESIGN

The proposed rate structure change in the Company's Application is summarized in the following table:

Charge	Current	Company Proposed	% Change
Minimum Monthly	\$29.00	\$52.02	79.4%
Volume Allowance gallons/month	5,500	5,500	No Change
Commodity (\$ / 1,000 gallons)	\$0.80	\$1.44	80.0%

Comments at 10.

Staff believes it is appropriate to maintain this two-part, single block rate design with a minimum charge volume allowance. Staff noted that other small water utilities regulated by the Commission use this structure. Staff also stated that this design provides a conservation incentive by charging a customer more for use in excess of 5,500 gallons per month. However, Staff proposed a different design that Staff believes will further encourage conservation by more directly linking usage level with percentage bill increase.

Charge	Current	Staff Proposed	% Change
Minimum Monthly	\$29.00	\$41.00	41.4%
Volume Allowance gallons / month	5,500	5,500	No change
Commodity (\$ / 1,000 gallons)	\$0.80	\$1.16	45.0%

Id. at 11. The bill impact by usage level would be as follows:

Monthly Usage (gal)	Current Bill	Bill (per Staff Proposal)	% Change
5,500	\$29.00	\$41.00	41.4%
10,000	\$32.60	\$46.22	41.8%
25,000	\$44.60	\$63.62	42.6%
50,000	\$64.60	\$92.62	43.4%
100,000	\$104.60	\$150.62	44.0%
150,000	\$144.60	\$208.62	44.3%
300,000	\$264.60	\$382.62	44.6%

Id. According to Staff, the resulting revenue is consistent with Staff’s revenue requirement recommendation when Staff’s proposed rates (in the above table) are applied to 2014 customer counts and billed gallons. *Id.* at 12.

In its reply, the Company stated it “is in general agreement” to Staff’s proposed rate design. Reply at 3.

Commission findings: We find that the agreed rate structure is appropriate. The proposed design is both reasonably cost-based and will further incentivize water conservation, an issue that has captured ever-greater concern throughout the region. We therefore approve it.

In summary, based on our above findings and pursuant to our authority granted under *Idaho Code* § 61-622, we find that the Company’s existing rates are no longer reasonable, and we approve as just and reasonable, the rates as set forth in this Order.

OTHER PROPOSED CHANGES

A. Company Tariff

The Company’s current tariff was last updated in 2007 on conclusion of Diamond Bar’s last rate case. The tariff includes the Company’s rate schedules and general rules, including rules governing the Company’s Cross Connection Control Program, which it initiated in 2004.³ In 2008, Staff developed a Model Tariff, including revised General Rules and Regulations and incorporating the Uniform Main Extension Rule for Water Utilities based on the Commission’s Order No. 7830 (Case No. U-1500-22). Also, in 2013, the IDEQ revised requirements for Cross Connection Control Programs. The Company’s tariff has yet to reflect these changes.

Staff recommended that the Company update its tariff to reflect the changes. In addition, Staff recommended that the Company revise its Rate Schedule No. 2 to describe circumstances in which a customer may be disconnected, which are not found in the Company’s current tariff. Staff is willing to work directly with the Company to ensure its tariff complies with the Commission’s rules, regulations, and orders. The Company indicated it agrees with Staff’s proposals and will work with Staff to update its tariff per the Commission’s final order in this matter. Reply at 3.

³ A cross-connection is an actual or potential connection between a drinking water system and another source that could cause anything other than potable water to backflow into the potable water supply. IDEQ Drinking Water Cross Connections Control Programs Fact Sheet (FS-0416).

Commission findings: We find the agreed changes to be appropriate, and direct Diamond Bar to work with Staff to ensure the Company's tariff complies with IDEQ's current requirements, the Commission's rules and regulations, and this order.

B. New Customer Connection Charge

The new customer connection charge applies to a first-time connection with Diamond Bar's system when an existing service line and meter base are already in place on the property. In its Application, the Company asks to increase the charge from \$310 to \$475 per connection. Staff believes this increase is too high, and recommends that it be reduced to \$335, based on Staff's estimation of the costs of the meter, labor, and transportation. Staff notes that this charge will have limited applicability because only a dozen or so lots remain to be developed in the two subdivisions served by the Company. The Company indicates it accepts Staff's proposed charge of \$335 for new customer connections. Reply at 4.

Commission findings: New customer connection charges should be a reflection of the costs of labor and materials to connect the new customer to the system. Therefore, we find the first-time connection charge of \$335 to be reasonable and appropriate, and thus approve it.

C. Billing Statements and Late Payment

During the workshop, a customer raised a concern that it was not clear when the Company reads customer meters, or how long billing periods are. Staff determined that the Company generates billing statements after meters are read on the last Saturday of each month except in winter. The Company then generates and sends billing statements around the first of each month for service provided the previous month. Given this meter-reading schedule, the number of days in a billing period could vary from 28 to 35 days. Staff recommended that the Company include the first and last dates of its meter-reading period on its billing statement, as required by Rule 201.03 of the Utility Customer Relations Rules, IDAPA 31.21.01. Staff indicated that the Company has already agreed to this change.

Staff also recommends that the Company be allowed to charge 1% on any past-due balance owing at the time of the next billing statement. Staff notes that allowing late payment charges encourages timely payment, and enables the Company to recoup some of its costs of collecting unpaid bills. The Company notes that it may not be able to afford the cost of mailing a past-due reminder at a 1% charge, and thus respectfully requests a late payment charge of 1.5% per month on past-due accounts. Reply at 4.

Commission findings: We find the agreed change on the Company's billing statements, to include the first and last dates of the meter-reading period, is proper, and thus approve it. We also find it reasonable and appropriate to allow a 1% charge on past-due balances owing at the time of the next billing statement. Prior to this Application, the Company has not imposed a past-due charge. Further, the Company provides no basis for anything greater than our standard 1% charge.

ORDER

IT IS HEREBY ORDERED that Diamond Bar Estates Water Company's rate base be established at \$32,945, with a 12% rate of return, annual expenses of \$32,628, and a revenue requirement of \$37,704, based on our findings stated above.

IT IS FURTHER ORDERED that new rates are approved establishing a base charge of \$41 per month, with a commodity charge of \$1.16 per 1,000 gallons of use over 5,500 gallons per month.

IT IS FURTHER ORDERED that the connection fee for new customers where a service line tap and meter box are already in place is authorized at \$335.

IT IS FURTHER ORDERED that the Company is allowed to charge 1% on any past-due balance owing at the time of the next billing statement.

IT IS FURTHER ORDERED that the Company work with Staff to revise its customer billing statements as discussed above, and to revise its tariff to be consistent with IDEQ and Commission rules and this Order.

IT IS FURTHER ORDERED that consistent with our findings above, the Company confirm with KEC that the transformer is adequately sized per the National Electric Code; replace its Delta type service drop with a Wye type service entry compatible with KEC's Wye transformer; and install a circuit breaker that disconnects all phases simultaneously.

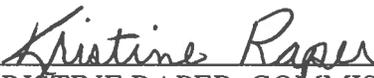
IT IS FURTHER ORDERED that the Company, with assistance from Staff, submit tariffs conforming to the new rates and charges as set forth in this Order, by no later than August 30, 2016, the date on which rates and charges authorized by this Order shall become effective.

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. 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 29th
day of August 2016.



PAUL KJELLANDER, PRESIDENT

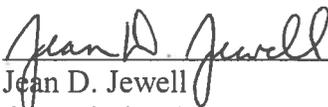


KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary