

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER RAPER
COMMISSIONER ANDERSON
COMMISSION SECRETARY
LEGAL
WORKING FILE

FROM: CHRIS HECHT

DATE: DECEMBER 13, 2018

SUBJECT: APPLICATION OF BAR CIRCLE "S" RANCH TO EXTEND SERVICE;
CASE NO. BCS-W-18-01

On July 31, 2018, Bar Circle "S" Ranch, Inc. filed an Application requesting approval to extend service to two undeveloped lots. A six-inch main would extend east from Dolan Road to Lot 1, Block 1 of Garwood Corner), which is one of two large lots comprising Garwood Corner, a proposed subdivision to be developed by McCarthy Capital, Inc. The Company also requested approval to extend a ten-inch main from its existing ten-inch main on Garwood Road to a second lot (Lot 2, Block 1, Garwood Corner). The preliminary plat for Garwood Corner shows 25 residential lots of approximately five acres each. The two main extensions would be looped to provide water within the proposed subdivision. The proposal indicated that McCarthy Capital, Inc., would be responsible for the installation of the system (mains, connections, meter pits and meters) within the subdivision, which it would then turn over to Bar Circle "S".

Staff sought to determine whether the proposed subdivision was within the Company's current certificated area. If the proposed subdivision was located outside of the Company's current certificated service area, it would be necessary for the Company to request an amendment to its CPCN. Staff would then need to determine whether the current system could adequately serve the new subdivision.

Staff also needed clarification from the Company as to whether it intended to follow its current tariff provisions with respect to its main extension agreement and its non-recurring rate schedule with respect to collection of hook-up fees and connection fees.

CERTIFICATED AREA (CPCN No. 296)

Staff determined that the proposed subdivision was within boundaries of the Company's certificated territory as amended in Order No. 28895 (BCS-W-01-01). In response to Staff's Production Requests, the Company provided plat maps, including legal descriptions, which verified the location of the subdivision and shows the two planned connections to the Company's existing system. The Company confirmed that its CPCN includes property to the east of Hwy 95, which is beyond the eastern boundary of the proposed subdivision. The certificated area includes the existing system adjacent to the proposed subdivision on its southern and western border, as well as land to the east to the subdivision. The northern border of the subdivision is the northern boundary of its certificated area.

Based on Staff's findings and the Company's concurrence that the subdivision is within the certificated area, Staff recommends that the Commission approve the main extensions requested and allow the Company to provide service to customers within the Garwood Corner subdivision without further amendment to the CPCN.

SYSTEM ADEQUACY

The Company maintains that its existing system has the ability to meet the needs of the customers within the proposed subdivision. The most recent Enhanced Sanitary Survey performed by Idaho Department of Environmental Quality in 2016 confirms the Company's position that the system is sufficient to serve its current service area. Staff production requests asked for further information regarding the systems wells and storage capacity. The Company's responses were not sufficient to make any determination without additional Production Requests. However, since the proposed subdivision is within the Company's certificated service area, further investigation will be conducted in the normal course of review by Staff.

TARIFF COMPLIANCE

The Company's Application indicates that it intends to charge the new customers within Garwood Corner the monthly rates for water service previously approved by the Commission.

Staff sought to clarify what the Company's intent was with respect to collection of hookup fees. The Company's Tariff provides two non-recurring charges for new customers, which apply in different circumstances. The Tariff states that:

For a first time connection to the Bar Circle "S" Water Company system when an existing service line and meter base are already in place on the property the charge is \$400.00.

If there is no service line tap to the Company's water mains or meter box in place on the property the charge is \$2 500.00.

The Company's response to Staff Production Requests included a one-page signed agreement between Rob McCarthy, President of McCarthy Capital, Inc., and Robert Turnipseed, as owner of Bar Circle "S" Water Company. Staff's understanding is that McCarthy Capital will pay Bar Circle "S" a "\$2,500 per lot hook up fee" for each of the twenty six lots within the proposed subdivision. The collection of the water hook-up fee as allowed in Bar Circle "S" Tariff would not typically occur until the owner of the lot requested service and is meant to cover the cost of improvements necessary to provide service to the customer. In this particular circumstance, subsequent customers within the subdivision who request water service will not have to pay Bar Circle "S" a \$2,500 hook up fee, since it was already paid by the developer. While this arrangement differs from what is required in the Company's Tariff, Staff does not object to it. Staff recommends that the Commission grant the Company a one-time waiver from its Tariff provision and approve this alternative arrangement.

The agreement between the McCarthy Capital and Bar Circle "S" also states that "All financial arrangements are met by McCarthy Capital Inc. (to) run water line for 26 homes and lots (including) main and services." The Commission's Uniform Main Extension Rule for Water Utilities governs how a water utility provides service to new customers in situations where a main extension from the utility's existing distribution system is required. The Rule was previously incorporated into Bar Circle "S" Tariff. Section C of the Rule applies to extensions to serve subdivisions. Staff's understanding is that Bar Circle S does not intend to collect an advance payment from the applicant/subdivision developer, which is allowed under Rule C.1.c. Instead, the Applicant will construct and install the necessary facilities and, upon completion, convey ownership to Bar Circle "S". Staff does not object to these alternative arrangements, and recommends that the Commission grant the Company a one-time waiver from the Uniform Main Extension Rule and approve the Company's alternative arrangement with McCarthy Capital.

The hookup fee as allowed by the Company's tariff is to offset the costs of improvements necessary to provide service to new customers. In this particular instance, the Company's intent

to collect the money prior to providing actual service to the customer will require that the Company properly record the funds in its accounting books to avoid the possibility of negative rate base. Commission Staff will review the treatment of these funds in a subsequent general rate case.

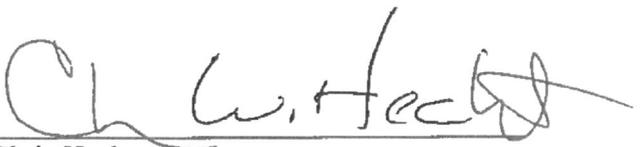
STAFF RECOMMENDATION

Staff recommends that the Commission issue an order that allows the Company to proceed with providing service to the proposed subdivision, Garwood Corner. Staff confirms that the proposed subdivision is within the Company certificated territory and the customers are entitled to service as allowed by Bar Circle "S" Water Company under Certificate No. 296, and under the Company's approved tariff rates and in accordance with the Commission's Rules and Regulations. Staff recommends that the Commission allow the Company a waiver to its tariff that allows the Company to collect its hook-up fees from the developer, and allows the developer to construct the system and then convey ownership of it to the Company.

COMMISSION DECISION

Does the Commission wish to approve the Company's request to provide service to the proposed Garwood Corner as allowed by the Company's current CPCN?

Does the Commission wish to grant the tariff waiver related to the extension and payment of hook-up fees?


Chris Hecht

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