DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

MYRNA WALTERS

TONYA CLARK

DON HOWELL

STEPHANIE MILLER

DAVE SCHUNKE

TERRI CARLOCK

KATHY STOCKTON

DON OLIASON

JUDY STOKES

GARY RICHARDSON

WORKING FILE

FROM:SCOTT WOODBURY

DATE:NOVEMBER 15, 1995

RE:CAPITOL WATER CORPORATION

CASE NO. CAP-W-95-1

On July 11, 1995, Capitol Water Corporation (Capitol Water; Company) filed an Application with the Idaho Public Utilities Commission (Commission) for authority to increase its tariff rates and charges for water utility service.  The Company in its principal application proposed a 25.8% increase.  The requested increase was suspended by the Commission so as to provide sufficient time and opportunity for intervention, investigation and public hearing.  Reference Order No. 26121.  Following an expedited hearing in Capitol Water’s alternative Application for an interim rate increase, the Commission approved an interim annual increase (subject to refund) in the amount of $5,889 (a 2.29% surcharge to residential and commercial customers).  Reference Order No. 26163.

A public hearing on the Company’s request for a permanent increase in rates in Case No. CAP-W-95-1 was held in Boise, Idaho on October 13, 1995.  The following parties appeared by and through their respective counsel.

Capitol Water CorporationBarton L. Kline

Commission StaffScott D. Woodbury

Public testimony was also received.

At hearing the parties presented a Settlement Stipulation (attached) for Commission consideration as being in the public interest and a fair, just and reasonable resolution to this case.  Reference Commission Rules of Procedure, Rules 272-276.  The proposed Settlement Stipulation was supported by testimony.  The testimony of the Commission Staff can be summarized as follows:

Terri Carlock, Accounting Section Supervisor

Ms. Carlock reviewed the settlement stipulation between Capitol Water Corp. and the Commission Staff and presented the capital structure and costs for Capitol Water used in the stipulation.

Under the Settlement Stipulation:

●Rates will be set to recover additional revenues of $26,533 above 1994 adjusted base revenue levels.

●Capitol Water agrees that it will install meters to measure flows from all of its wells.

●Capitol Water will adequately document vehicle expenditures by vehicle.

●Capitol Water will institute reasonable procedures to maintain written records of all customer inquiries and complaints it receives.

●Capitol Water will continue to promote water conservation efforts.

●Capitol Water will restructure its capital financing to more accurately reflect its debt.

The stipulation establishes fair and reasonable rates for Capitol Water customers.  It also implements improvements with the Company’s record-keeping practices and operations without litigating the arguments and concerns during the hearing.

The revenue increase recommended is based upon a 12 percent return on equity, with an overall 10.78 percent rate of return.  The agreement is based upon a capital structure of 51.79 percent debt and 48.21 percent equity.

Kathy L. Stockton, Utility Auditor

Ms. Stockton presented the results of the Commission Staff’s audit of Capitol Water.  These results reflect the operating expenses, rate base, revenue requirement, effective tax rate and net-to-gross multiplier calculations.  Based on the audit, the rate base, using a 1994 test year adjusted for 1995 known and measurable changes is $597,276.  The revenue requirement is $407,247, and the revenue deficiency is $26,533.

Don Oliason, Utility Engineer

Mr. Oliason reviewed the general design of the water system and its operational problems, discussed customer metering and supported the new rates agreed to in the Settlement Stipulation.

He concluded that:

●The water system is properly designed and is adequate to serve existing customers.

●The pressure problem encountered this past summer will be improved by the return of Well No. 3 to production.

●The iron problem needs the attention of a consultant.

●Installation of residential meters is not cost effective.

●Well metering should be repaired and made operational as agreed to in the settlement stipulation.

●New rates should be established by adding a uniform, 6.97 percent percentage to the company’s tariffs.

Judy Stokes, Utilities Compliance Investigator

Ms. Stokes discussed the complaints and inquiries received by the Commission.  She recommended that the Company provide information to customers on water-quality issues and that it continue its efforts to promote water conservation.  Customers need to be aware that the cost to the company for pumping water from its wells ultimately affects customer rates.  She encouraged the Company to keep a record of complaints it receives from customers, as required by Commission rules.

Public Testimony

Public testimony was received regarding the high iron content of the Company’s water.  The customer testified that the Company’s water has ruined her clothes and china and that she is afraid to drink it.  The customer contends that the Commission should not grant the Company a rate increase without requiring it to improve the quality of its water.  As testified by Staff witnesses, the Idaho Division of Environmental Quality (DEQ) reports that iron and manganese are the source of the discoloration and that neither, under EPA guidelines, pose a health threat.  Staff has recommended that the Company hire an experienced consultant.  In its rebuttal testimony the Company suggests that based on preliminary discussions with Ed Squires of United Water Idaho, the most cost effective solution would be to drill a new well.

Commission Decision

At hearing Commissioner Smith suggested that the tariff rates sh­­­­­­­­ould be rounded.  The Company enthusiastically agreed.  Staff opined that rounding would probably not violate any ratemaking principles.  The effect of rounding the flat minimum and/or base rates for all Company customers (both metered and unmetered) equates to an estimated increase in annual revenues of $1,025 (from $26,533 to $27,558) or .30% (from 6.97% to 7.27%).  Does the Commission find this result to be reasonable?  Did the Commission envision that rounding would be applied only to unmetered customers.  Restricting rounding to unmetered customers would eliminate rounding for Schedule 2 commercial customers (the minimum rate).  This adjustment would equate to approximately ($53.00) in estimated annual revenue and would marginally reduce the return.  The Commission is advised that it regulates approximately a dozen small water utilities serving unmetered customers with flat rates.  Is there an intent to establish a precedent?

Does the Commission find the proposed Settlement Stipulation (attached) and proposed rates (attached) to be an acceptable and reasonable resolution of the Company’s Application for change in tariff rates and charges?

If so, is a December 1, 1995 effective date appropriate?

If not what is the Commission’s preference?

Any comment regarding the quality of the water (discoloration)?

Scott Woodbury

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