BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF COUNTRY CLUB HILLS UTILITIES, INC. FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER SERVICE	**CASE NO. CCH-W-05-1** **ORDER NO. 29794**

On March 21, 2005, Country Club Hills Utilities, Inc. (Country Club; CCH; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting authority to increase rates and charges for water service. Country Club provides metered water service in the Idaho Falls area to 118 residential customers and 1 commercial customer and flat rate water service to 10 residential customers. In this Order the Commission authorizes a revenue increase of $10,792 or 32% and an annual revenue requirement for Country Club Hills Utilities, Inc. of $42,718. We increase the hook-up fee from $300 to $500, direct the Company to implement a water conservation information program for customers and authorize a dedicated reserve account to address on-going service line repair expense.

Application

The Company's present rates were established in 1990. Country Club contends that a 30% rate increase is required in order to meet system demands and to continue providing uninterrupted water service of the highest quality. Country Club in this case requests that the Commission authorize a general increase in water rates and fees as follows:

Residential

- Increase residential base rates from $14 per month to $20 per month.
- Increase metered residential rates from $.35 per 1,000 gallons to $.45 per 1,000 gallons for all consumption in excess of 15,000 gallons per month.

Commercial

- Increase commercial base rate from $14 per month to $22 per month.
- Increase metered commercial rates from $.35 per 1,000 gallons to $.45 per 1,000 gallons for all consumption in excess of 15,000 gallons per month.

Hook-up Fee

- Increase hook-up fee from $300 to $500 per hook-up.

Commission Notices of Application and Modified Procedure in Case No. CCH-W-05-1 issued on April 8, 2005. Prior to the comment deadline Commission Staff on May 11, 2005 conducted a public workshop in Idaho Falls. The purpose of the public workshop was to provide customers with an opportunity to hear from Commission Staff regarding the Company's Application and to ask questions of Staff and representatives of the Company. No customers attended the workshop. The deadline for filing written comments was May 11, 2005. Written comments were filed by Commission Staff and two of the Company's customers. On May 18, 2005, the Company filed a reply.

The Commission has reviewed and considered the filings of record in Case No. CCH-W-05-1 including the analysis, comments and recommendations of Commission Staff, the comments of customers and the Company's reply. Procedurally we find that the customers of Country Club were provided with both an opportunity to attend an informational workshop on the Company's Application and to submit written comments. We continue to find it appropriate to process this Application without a technical hearing and based on the written filings of record. Reference IDAPA 31.01.01.204.

Staff Comments and Recommendations

Staff performed a detailed audit of the Company's Application and financial records. The audit included a review of the Annual Reports, interviews with Company personnel, a detailed review of the Company's books and records, and an inspection of Company plant. As a result of its audit, Staff comments propose a variety of rate base and expense adjustments to the Company's request. The adjustments are described below and are set out in the Attachment to this Order. As reflected in Company letter dated May 18, Mike Groth, president of Country Club Hills Utilities, accepts Staff's analysis, adjustments and rate design proposals.

Test Year, Rate Base, Return on Equity Surrogate and Revenue Requirement

Based on its analysis and use of a Company proposed 2004 test year for operating expenses with adjustments for known and measurable changes, Staff recommends that the annual revenue requirement for County Club be set at $42,718. This is an overall revenue increase of $10,792 or 32%. Staff proposes nine adjustments described below:

Adjustment 1 – Capital Items

> During 2004 CCH upgraded its control system with new equipment that will allow better monitoring and control of water distribution. These upgrades were expensed in the Materials & Supplies account. Staff believes it would

be more appropriate to capitalize these long-term assets and depreciate them over their useful lives. Therefore Staff removes the $5,327 worth of equipment from 2004 expenses and includes it in rate base. In addition to the items purchased in 2004, CCH upgraded one of its two pumps in February 2005. This new pump is more powerful and has variable speed capabilities. This will address some of the pressure concerns and could potentially reduce the electric demand charges. Because the purchase is known, measurable and appropriate, Staff included the new pump in rate base ($7,370) and included the pump's depreciation expense below. Because all the equipment was purchased using a line of credit, the required return consists only of debt. Therefore, for ease of understanding, Staff has included interest expense as an allowed expense, rather than a return on the capital purchases.

Adjustment 2 – Depreciation Expense

As noted above, before 2004 all of CCH's assets were considered to be contributed and therefore no depreciation expense was included in rates. However, the upgrades and additions mentioned in Adjustment 1 ($5,327 monitoring and control equipment; $7,370 new pump) should be included in rate base and depreciated over the useful lives. Staff recommends that the Company depreciate the equipment over thirty years and recover annual depreciation expense of $423.

Adjustment 3 – Reduce Electricity Expense

Because Staff proposes adding costs associated with the new pump installed in February 2005, the benefits of the pump should also be included. In addition to providing more capacity, the new pump has a variable drive feature that allows the pump to run more efficiently. This feature results in reduced energy and demand charges by eliminating the need to run additional pumps. Staff and the Company estimate that up to $600 per year will be saved in energy costs by having the variable speed pump. Staff's calculated revenue requirement passes these savings on to customers.

Adjustment 4 – Salary for Mike Groth

The owner of the system, Mike Groth, does not take a salary or a draw from the operating revenues of the system even though he works several hours a week on water company items. Staff believes it is reasonable to include a management fee of $4,000 in the annual revenue requirement to reflect the time Mr. Groth spends working as the operator/manager of the system.

Adjustment 5 – Add Liability Insurance

Currently the Company does not have any liability insurance. Staff believes it is important to insure the system to protect the Company from unforeseen incidents/accidents. Staff recommends that Country Club Hills be required to purchase liability insurance. Staff adds the $1,000 per year Mr. Groth believes he needs to allow the Company to secure liability insurance. Staff recommends that the Company be required to provide a status report to the Staff once it secures an appropriate insurance policy.

Adjustment 6 – Increase Testing Expense

Because required testing expenses for water supply can vary year to year, the Commission has typically allowed testing expenses of $750 for each groundwater source of supply. The Company has two wells and therefore should be allowed $1,500 per year for testing. Because CCH had lower than average testing expenses for 2004, Staff adds $702 to the revenue requirement to allow for higher testing expenses in coming years.

Adjustment 7 – Remove Hook Up Fees from Operating Revenue

In its Application, the Company included $430 of hook-up fees as revenue. Staff contends that these funds should be booked to an account that is used to offset the corresponding expenses and thereby hold customers harmless for the costs of hooking customers up to the system. Staff removes these funds from operating revenues. Staff recommends that the Company separate the hook-up revenues into a separate account to allow for the tracking of the revenues. While there are currently no plans to significantly expand the system, Staff notes that there are approximately one to four new hook-ups each year.

Adjustment 8 – Service Line Repair Expense

The predecessor to Country Club Hills began installation of water facilities in the mid 1970's with a different developer than the current owner. The first developer ran approximately 30 service lines to home sites before declaring bankruptcy and leaving the area. The current owner of the system, Mr. Mike Groth, came in and began building homes on the partially developed lots without knowing that some service drops had been already installed. As a result, the first 30 homes were built with two service lines, one capped by the initial developer and the other metered by Mr. Groth. Major changes to the grade of some lots occurred after the first service lines had been laid. After a few years of development, Mr. Groth realized that there were two service lines. At that time, he notified the homeowners and asked them to locate and remove the unused services lines. Many of the initial service lines remain and after 30 years they are beginning to fail and break. Failure of these abandoned lines can cause loss of system pressure and result in extensive damage to customer property. The lines are very difficult to locate and remove before they break because their location is unknown.

The Company asks that the Commission either allow funds to be collected in rates to help pay for these repairs as breaks occur or to simply require the individual customers to pay for the repairs. The Company's repair and removal costs have ranged from $200 to $4,000[1] for each break with two to four breaks per year and twenty to twenty-five more lines to remove. While some of the repairs can be accomplished at a relatively low cost, it can be very expensive to locate and remove the old lines. Staff recognizes that many of the properties in Country Club Hills have changed ownership. Staff does not believe it should be the sole responsibility of customers to pay for removal of these lines before or after they break but Staff also believes that the Company should not be required to make the repairs without being reimbursed.

To help pay for the anticipated repairs of broken lines, Staff recommends the inclusion of $1,500 per year in rates for a dedicated reserve account. Staff will follow up in future audits to verify that the Company is performing service line removal and accounting for these reserve funds properly.

Adjustment 9 – Additional Revenue Required

In order to allow the Company to cover all of its reasonable expenses and pay interest on its operating line of credit, Staff recommends an annual increase of $10,792 or approximately 32%. This amount should allow the Company to operate without its current cash flow deficiency and to maintain sufficient reserves to repair the unused service lines as they break. The overall revenue requirement proposed by Staff is $42,718.

Commission Findings

In reviewing the filed comments, we find that the Company has agreed with the analysis and recommendations of the Commission Staff. We find that Staff's recommendations are based on its audit of Company records and operations. We find that the Staff identified exceptions and related adjustments to the Company's financial record as reflected in the Attachment to this Order are proper and in conformance with observed accounting standards. We find that the resulting schedule accurately reflects the Company's financial profile, rate base and operations for test year 2004. See Attachment to Order No. 29794.

We find Staff's proposed substitution of interest expense on financing and line of credit funding for capital purchases by CCH to be a reasonable surrogate for return on equity. We find it reasonable to provide the Company with an allowance for management expense and accept $4,000 as a reasonable annual fee for the services provided by Mr. Groth. We also find it reasonable to require a policy of liability insurance and authorize $1,000 for such annual

[1] While some breaks are only a few feet underground and are easy to identify, the most recent break was 13 feet below ground. To fix the break, the Company had to bring in large excavation equipment and shoring for the workers and incurred significant expense. There were also substantial repairs to the customer's lawn.

expense. We further approve Staff's adjustments for rate base, and for depreciation, electricity, testing, and service line repair expenses.

In the context of the record established in Case No. CCH-W-05-1, and the results of Staff audit and adjustments, to which the Company has agreed and which we accept as fact, we approve and find just and reasonable for Country Club the following: use of a 2004 test year, a rate base of $12,697 ($5,327 monitoring and control equipment + $7,370 new pump), line of credit/finance interest rates for capital purchases as a surrogate for return on equity, and an authorized revenue requirement of $42,718. The resulting authorized revenue increase is $10,792 or 32%.

Rate Design

> In its filing, the Company proposed the following rate design for the majority of its customers:
>
> 1. Increase flat residential customer rates from $14 per month to $20 per month (10 customers that live in two condo units. The condos have a separate meter that tracks usage for watering outside lawns).
>
> 2. Increase metered residential rates from $14 per month with 30,000 gallons to $20 per month with 15,000 gallons. Raise the additional gallonage charge from $.35 per 1000 gallons to $.45 per 1000 gallons (118 customers).
>
> 3. Increase the flat commercial rate from $14 per month to $22 per month (no customers).
>
> 4. Increase the metered commercial rate from $14 per month for 30,000 gallons to $22 per month for 30,000 gallons. Raise the additional gallonage charge from $.35 per 1000 gallons to $.45 per 1000 gallons (1 customer).
>
> Staff has calculated the effect of the Company's proposed rate design and believes that it has three flaws. First, the proposed design gives a substantial increase to the customers that use the least amount of water. This sends an inappropriate signal when the Company is trying to have customers conserve water. Second, the proposed rate design is not consistent with Company tariffs currently in place. Currently, there are only three tariffs, a metered residential rate, a condo rate and a landscaping rate. Staff proposes to use tariffs currently in place and not distinguish between commercial and residential customers because there is only one commercial customer who uses relatively small amounts of metered water. Finally, the Company's proposed rate overcollects Staff's proposed revenue requirement

dramatically. To correct these flaws, Staff recommends the following rate design:

1. The base charge for all metered year-round customers should be $17 per month with 30,000 gallons included. After 30,000 gallons, the charge will be $.60 per 1,000 gallons instead of $.35 per 1,000 gallons.

2. The ten flat fee condo customers will pay a base charge of $15.75 per month. This is an increase of approximately 30% and is reasonable compared to the increase of the metered customers. The condo customers do not have meters and use water only for indoor use. The cost to install meters would be substantial and the meters would probably provide little benefit because the condo owners probably use significantly less water than the 30,000 gallons included in the base charge of the metered customers.

3. The associations of the two small condos use the landscaping tariff to water the grass and the landscaping around the condos. They do not take water outside of the landscaping season, and this tariff does not charge a monthly cost during the winter months. Therefore, Staff believes it is reasonable that during the months the water is being used, the owners pay a slightly higher base charge. Staff recommends the rate be increased from $16 per month to $20 per month for 30,000 gallons. The rate per 1,000 gallons after 30,000 gallons should be the same as the other metered customers - $.60 per 1,000 gallons. This results in an increase of approximately 30% for these two customers.

Under Staff's proposed rate design, customers that use less than the minimum amount would receive a smaller increase than those using more. This rate design should encourage conservation or at least discourage heavy use.

Commission Findings

The Commission finds the rate design proposed by Staff and agreed to by the Company is fair, just and reasonable. We find that it fairly reflects the respective usage of metered and flat rate customers and is an equitable way to recover the Company's revenue requirement. *Idaho Code* § 61-503.

Hook-up Fees

In its Application, the Company requested an increase in hook-up fees from $300 to $500. Staff has reviewed the hook-up rates for other private and municipal water systems in the area and found that $300 is low compared to the other systems. Staff supports the increase in hook-up fees from $300 to $500 and reminds the Company to book the fees in a contribution account that will be used to reduce rate base. Staff will review the Company's hook-up fees in the next audit to verify the funds were booked and spent appropriately.

Commission Findings

We find the proposed increase in the hook-up fee is reasonable. Requiring the collection of costs for hook ups from the customers receiving the service will prevent that expense from being added to base rates.

Consumer Issues

> Staff reviewed the customer complaints received by the Idaho Public Utilities Commission from January 2001 to May 4, 2005. During that time frame, there was one complaint filed and no inquiries.
>
> As of May 5, 2005, there have been two written comments received since the Application for an increase in rates was filed March 21, 2005. One of the comments was from the same customer who filed the complaint in 2002, reiterating the customer's experience. That issue was resolved within a few days after contacting the Commission, in the customer's favor. The other comment was unsigned and complained that the water pressure is terrible.
>
> The workshop held on April 27, 2005 in Idaho Falls was not attended by any customers. Staff took advantage of the time to discuss several items with the Company. The Company admitted that there were one or two customers located at the higher elevations who did complain from time to time about a lack of water pressure, usually in the summer months in the early hours when people were getting ready for school and work. The new pump installed in February 2005 should address some of these concerns.
>
> Mr. Groth also shared with Staff the meter readings of the 15 highest users for the month of May 2004, which showed usage from 87,000 to 252,000 gallons of water during that one month for each customer. The Company has a 150,000 gallon storage tank but it is pumped dry on a regular basis. Mr. Groth explained that he has gone door to door asking customers to change the timers on sprinklers or alter watering to every-other day or every third day, but those efforts have been unsuccessful in reducing the amount of water being used. Staff would also like to encourage customers to use less water. The Staff's proposed rate design will encourage customers to conserve water.

Commission Findings

Addressing what appears to be excessive water use by some CCH customers, the Commission reminds the Company's customers that water is a precious commodity that should be conserved and used wisely. The Company is directed to work with Commission Staff to develop a cost-effective program that encourages water conservation by its customers. To such end the Company should provide customers with simple inexpensive billing inserts promoting wise water use with particular focus on responsible lawn and garden watering.

CONCLUSIONS OF LAW

The Commission has jurisdiction and authority over Country Club Hills Utilities, Inc., a water utility, and the issues raised in Case No. CCH-W-05-1 pursuant to Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000 et seq.

ORDER

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED and the Commission in Case No. CCH-W-05-1 does hereby approve as just and reasonable the detailed changes in revenue requirement, rate design, tariff commodity rate revisions and hook-up fees.

IT IS FURTHER ORDERED and the Company is directed in compliance with the foregoing to file amended tariffs to reflect the authorized charges and fees on or prior to the effective date that we hereby authorize, i.e., June 1, 2005.

IT IS FURTHER ORDERED and the Company is directed as more particularly described above to comply with the Commission's directions regarding water conservation information and service line repair expense.

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 1st day of June 2005.

PAUL KJELLANDER, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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Revenues	Company Reported 2004	1	2	3	4	5	6	7	8	9	Staff Recommended 2004
Water Revenues	32,356							(430)		10,792	42,718
Expenses											
Labor - Operations	4,429				4,000						8,429
Labor - Customer Accounts	490										490
Purchased Power	8,325			(600)							7,725
Materials & Supp. - Operations	9,662	(5,327)							1,500		5,835
Materials & Supp. - Admin.	659										659
Contract Services - Professional	2,643										2,643
Contract Services - Testing	798						702				1,500
Property Rental	3,850										3,850
Transportation Expense	3,088										3,088
Miscellaneous Expense	4,905										4,905
Regulatory Fee (IPUC)	87										87
Property Tax	494										494
DEQ Fees	555										555
Other License & Fees	185										185
Depreciation Expense	0		423								423
Liability Insurance Expense	0					1,000					1,000
State Income Taxes	30										30
Interest Charges	820										820
Total Expense	41,020										42,718
Net Income (Loss)	(8,664)										(0)

Staff Adjustments	Amount	Number		
Pull out capital items & capitalize	(5,327)	1		
Depreciation expense of capital items	423	2	Staff Recommended Increase	32%
Reduce Electricty expense	(600)	3		
Salary for Mike Groth	4,000	4		
Add liability insurance	1,000	5		
Increase testing expense	702	6		
Remove hook up fees	(430)	7		
Repair expense	1,500	8		
Additional Revenue Required	10,792	9		

ATTACHMENT
CASE NO. CCH-W-05-1
ORDER NO. 29794