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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE COMMISSION'S
INVESTIGATION INTO CDS STONERIDGE,
LLC'S HOOK-UP FEE FOR NEW
CUSTOMERS TO CONNECT TO ITS WATER
SYSTEM

Case No. SWS-W-20-02

RESPONSE TO ORDER NO. 34770

CDS Stoneridge Utilities, LLC, owned by J.D. Resort, Inc. (collectively the "Company") through its attorneys of record Givens Pursley LLP submits this Response to the Idaho Public Utilities Commission's (the "Commission") Order No. 34770, dated September 9, 2020.

INTRODUCTION

J.D. Resort acquired CDS Stoneridge in November 2018, as part of a larger acquisition that involved purchase of a golf course, other property, and a sewer company. *See* Idaho PUC Order No. 34297 (April 2019). Unfortunately, CDS Stoneridge had been operated for years or decades in an unsustainable manner. The Company's rates have not been substantively updated since 2007, Idaho PUC Order No. 30342 (June 2007);¹ the prior owner did not keep adequate records; and the Company's policies and procedures were not readily available. Exacerbating

¹ Note that CDS Stoneridge did have a rate case in 2015 but it involved only the approval of a minor adjustment to rates related to a loan (an adjustment that had actually been approved in advance in the 2007 rate case) and a request to change the utility's name on its Tariff. Idaho PUC Order No. 33249 (March 2015). The Company's core existing rates, including the \$1,200 Hook-up Fee, were set in the 2007 rate case and have not been adjusted since then.

issues, the employees of CDS Stoneridge were located in Utah and did not stay with J.D. Resorts after the acquisition.

Upon the acquisition, J.D. Resorts hired a water system operator and began the process of attempting to run the Company in a sustainable manner. At the outset, J.D. Resorts recognized that the \$1,200 Hook-up Fee did not cover the costs of connecting new customers to the system. Due to the unique geography of the remaining lots, connecting new houses was not a matter of simply installing a meter; it often involved extending the water system, boring under roads, and other services in excess of \$1,200. As discussed in more detail below, it was not clear to J.D. Resorts when a customer was merely hooking up to the system, and thus would be subject to only the Hook-up Fee, and when other parts of the Company's approved Tariff, such as the provisions for line extensions or for out-of-the-ordinary expenses, applied.

In addition, J.D. Resorts did not fully appreciate the depth and intricacy of the Commission's regulations. The new water system operator, while highly competent in the details of running a water system, had experience only with non-utility water providers.

J.D. Resorts now recognizes that the Company's operations, tariffs, and rates must be overhauled, with Commission oversight and approval, to bring it into compliance with the Commission's rules. The Company's Response to the Order No. 34770 is set forth below.

In addition, the Company will take immediate action in response to Order No. 34770. The Company also proposes to work with its attorneys and Commission Staff to create a compliance plan to be filed with the Commission within 90 days after the Commission's order regarding this Response. The Company respectfully requests that the Commission defer any decision regarding monetary fines until after the compliance plan is filed.

RESPONSE TO ORDER NO. 34770

The Company responds to Order No. 34770 as follows. The Company will immediately:

1. Cease all billing practices that conflict with the Tariff, including charging new customers within its service territory more than the Commission-approved \$1,200 Hook-up Fee to connect to the Company's water system;
2. Reconnect and/or continue serving customers within its service territory who did not pay amounts that exceed the \$1,200 Hook-up Fee;
3. Connect requesting new customers within its service territory to the water system who pay the \$1,200 Hook-up Fee, consistent with the Company's Tariff; and
4. Provide copies of Company records regarding new customer connections from November 2018 through the present under separate cover to Commission Staff.²

Along with these immediate measures, the Company commits to refund Hook-up Fees paid by customers in excess of the Commission-approved \$1,200.

By way of explanation regarding fees charged to potential customers in excess of \$1,200, the Company interpreted its Tariff as allowing extra charges to customers when connecting those customers required the Company to incur costs beyond a simple service connection. For example, section 9.4 of the Tariff provides,

The extra costs of any out-of-the-ordinary circumstances requiring additional equipment or special construction techniques involved in the installation of a service connection will be agreed to in advance by the Customer and Company. *The cost for any additional services, work or parts except those associated with the installation of a stop-*

² The records are provided to Commission Staff under separate cover to protect customers' addresses and billing information. Most of the work necessary to connect customers to the system was done internally, thus the Company is unable to provide the Commission with simple invoices or receipts for this work. However, the Company is working diligently to quantify the costs of these connections and will provide that information to the Commission as soon as possible.

and-waste valve and 3/4 inch water meter shall be the responsibility of the customer.

(Emphasis added.) In addition, section 9.1 of the Tariff contemplates “piping, valves, [and] appliances” that are the “property and responsibility of the Customer,” while section 12 of the Tariff provides, “[t]he extension of system water mains for the purpose of providing new service shall be done on a time and material basis.” The Company interpreted these provisions as authorizing it to recuperate costs associated with extending the water system to serve particular customers.

The Company also notes that it refused service to several customers that were located outside its service territory, based on the excessive cost to connect these customers to the system. The Company does not know whether these customers filed complaints with the Commission.

The Company recognizes that its interpretations of the Tariff may have been erroneous in some circumstances. The Company proposes to work with Staff to determine which of the payments from customers above the \$1,200 Hook-up Fee, if any, were valid under these provisions of the Tariff, and to refund the amounts that were not validly charged. The Company proposes to file with the Commission a report documenting 1) the amount due to customers; and 2) a receipt for the refund amount within 30 days of the Commission’s order regarding this Response.

Order No. 34770 notes two specific customer complaints, one dated March 25, 2020 and the other dated July 22, 2020.³ The Company responds to each as follows.

³ The Company has reviewed its records and found one customer complaint dated February 25, 2020 and another dated June 11, 2020. The Company does not otherwise have any records of customer complaints dated on or around March 25, 2020 and July 22, 2020. However, based on the facts of the customer complaints that the Company has on record, and how the customer complaints referenced in Order No. 34770 are described in the order, it is the Company’s belief that February 25 and March 25 refer to the same customer complaint. The Company believes the same to be true for June 11 and July 22. The Company is willing to work with the Commission Staff to resolve any confusion regarding customer complaints. The Company will otherwise proceed to respond to the two customer complaints here by using the dates mentioned in Order No. 34770.

The property related to the March 25 complaint required special services in order to make the connection. Among other things, the Company was required to retain a third party to perform over 300 feet of excavation on a neighboring property, which cost \$2,850, and was required to install an abnormally extensive service line to reach the customer's property. The customer was aware of the unique services required for the connection to his property and verbally agreed to pay \$4,600 (the \$1,200 Hook-up Fee plus the cost of the work) to connect his property to the system. The customer never disagreed with the additional charges and, in fact, he informed the Company that he did not file the complaint with the Commission himself, but that some other resident of the community filed it when he or she learned that the customer had paid more than \$1,200 for the connection. In any case, the Company believed, at the time, that the additional charges were appropriate under its interpretation of §§ 9.4 and 12 of the Tariff.

Likewise, the July 22 complaint involved a customer whose property required additional services to make the connection. The Company charged the customer a total of \$4,000 for the connection and the additional work. As with the March 25 customer, the Company believed that the additional charges to the July 22 customer were appropriate under its interpretation of the Tariff.

In addition, the Company understands that the Commission received an additional complaint from a customer on September 16, 2020, indicating that the Company had proposed to charge a customer \$4,000 to connect to the water system. The Company has not deposited the customer's check, and will return the check to the customer. The Company will hook up the customer to the system and charge only the \$1,200 Hook-up Fee. To the extent providing service to the customer requires extraordinary costs, the Company will work with Staff to determine whether charging some of these costs to the customer is appropriate under the existing Tariff.

PROPOSED COMPLIANCE PLAN

The Company recognizes and acknowledges the need to overhaul its operations to come into compliance with the Commission's rules, while also revising its tariffs, charges, and rates to allow sustainable operations. To that end, the Company proposes to work with its attorneys, Commission Staff, and outside professionals (such as accountants) to establish a compliance plan with at least the following components:

- An understanding of what circumstances are considered a customer connection subject only to the Hook-up Fee, and what circumstances are considered main extensions or out-of-the-ordinary expenses allowing recoupment of costs under the Tariff;⁴
- Identification of potential changes to the Tariff that will enable the Company to recuperate costs associated with adding new customers, consistent with Commission rules;
- Considering hiring or consulting with a water operator that is familiar with the Commission's rules and business practices of regulated water utilities; and
- Any other compliance issues or operational challenges identified in the course of reviewing the Company's practices.

The Company proposes to file this compliance plan within 90 days of the Commission's order acknowledging this Response.

The Company respectfully requests that the Commission defer any decisions regarding penalties or fines against the Company until it takes the steps identified in this Response. This will enable the Company to focus its resources on achieving compliance.

CONCLUSION

J.D. Resorts acknowledges the difficulties it has experienced in attempting to operate the Company in compliance with the Commission's rules. The Company is committed to achieving

⁴ The Company has requested an increase in the Hook-up Fee. It recognizes that any increase can be applied only prospectively.

compliance, and hopes to demonstrate this intent by completing the actions identified in this response.

Dated: September 30, 2020.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I certify that on September 30, 2020, a true and correct copy of the foregoing was served upon all parties of record in this proceeding via electronic mail as indicated below:

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