Office of the Secretary
Service Date
March 15, 2005

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF RESORT WATER CO. INC. FOR ISSUANCE OF A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY, FOR APPROVAL OF RATES AND CHARGES, AND FOR APPROVAL OF RULES AND REGULATATIONS GOVERNING THE RENDERING OF WATER SERVICE	)	**CASE NO. RES-W-04-1** **ORDER NO. 29732**

INTRODUCTION

On August 13, 2004, Resort Water filed an Application requesting issuance of a Certificate of Public Convenience and Necessity. The Company also requested approval of an increase in existing rates and charges for water service and approval of the Company's Rules and Regulations governing the rendering of water service. On September 1, 2004, the Commission issued a Notice of Application and Order No. 29575 which suspended the Company's proposed schedule of rates and charges. In Order No. 29690, the Commission extended the suspension period for an additional 30 days, to March 15, 2005 and ordered the use of Modified Procedure with a public workshop on February 8, 2004. Comments were filed by the Staff and approximately 30 customers.

Staff has reviewed the Company's filing, visited the Company's offices, reviewed its financial position, toured the service area, and conducted a public workshop. Staff filed extensive comments on February 17, 2005. The Company, in its reply comments filed on February 25, 2005, stated that although it believes the rates proposed in its Application are supported by sound rate making theory and practice, that it would acquiesce to an Order consistent with the Staff's recommendations. Thus, the Company agreed to the Staff's proposed adjustments, return on equity, and rate design.

In this Order the Commission issues a Certificate of Public Convenience and Necessity to Resort Water. Additionally, this Order establishes and approves rates, charges, and customer rules and regulations governing the rendering of water service by the Company.

THE INITIAL APPLICATION

According to the Company's Application, Resort Water provides domestic water service to customers in Bonner County, Idaho, primarily located within the Schweitzer Mountain Resort Planned Unit Development. Resort Water currently serves 287 residential units, or equivalent residential units (ERU), which include 11 condominium associations billed as a single customer, as well as six commercial customers representing approximately 91 ERU's. Resort Water's current water rate is a monthly flat rate of $33.00 per ERU.

Resort Water originally requested an increase in the monthly flat rate from $33.00 per ERU to $61.96 per ERU, an increase of 88%. The Application states that the Company seeks the additional revenues to recover increased expenses and costs associated with plant additions, and to produce a fair rate of return. Staff proposed and the Company accepted that the flat monthly rate be increased to $44.80, an increase of 36%. Resort Water is owned by Harbor Mountain Utility Company LLC, who in turn is part of a larger family of companies known as Harbor Mountain LLC. In 1999 Schweitzer Mountain Resort, including the domestic water system, Resort Water, was purchased from the Trustee in a federal bankruptcy proceeding.

CUSTOMER COMMENTS

The Commission received approximately 30 written comments from Resort Water customers. Twenty customers attended the public workshop held on February 8, 2005. Staff answered questions for more than two hours.

Several Resort Water customers mentioned they do not understand the reason for such a substantial increase in water rates. Others indicated that some increase in rates is understandable; however, they questioned what system improvements have been made to justify the requested rate increases. They fear customers are being asked to pay for future expansion of property owned by Harbor Mountain or to make up for poor management decisions in the past. Several customers were concerned whether or not the White Pine Lodge, a large condominium building owned by one of Resort Water's affiliate companies, paid a connection fee. One customer preferred metered rates rather than a flat monthly rate. Another customer requested that the billing be on a yearly basis, and another requested quarterly, instead of monthly billing because their respective condominium associations bill on a yearly and quarterly basis. There was concern expressed that the calculation of ERU's was flawed in that the usage levels were too high, and that snowmaking was under-allocated.

FINDINGS OF FACT

I. CERTIFICATE OF CONVENIENCE AND NECESSITY

We find it appropriate and necessary to issue a Certificate of Public Convenience and Necessity to Resort Water Company, Inc. The Company has offered water service to the general public since late 1999. It is operating a water system on Schweitzer Mountain that has been in existence since sometime in the late 1960's or early 1970's. Resort Water filed a complete system map and a legal description of its requested and anticipated overall service area, and filed the appropriate financial and cost-of-service data. The Company identified adjacent water companies/cooperatives. It appears to provide service in harmony with the adjacent water providers. Staff continues to investigate the status of the adjacent water providers. The Company meets the two-part test of *Idaho Code* § 61-129 of selling water service to the public for compensation within the State of Idaho. There is a need for water service (as demonstrated by its existing services) and Commission Staff recommended that it be granted a Certificate of Public Convenience and Necessity pursuant to *Idaho Code* § 61-526.

Commission Findings: We find that Resort Water is operating as a public utility pursuant to *Idaho Code* §§ 61-124, 61-125, 61-129, and should be granted a Certificate of Public Convenience and Necessity pursuant to *Idaho Code* § 61-526.

II. TEST YEAR

The Company's Application uses a test year ending August 31, 2003, based upon 12 months of actual data. Staff does not oppose the use of the 2003 test year. We find use of the 2003 test year is reasonable for purposes of this case.

III. RATE BASE

1. Acquisition Adjustment

The Company initially allocated $355,000 of the total purchase price for Schweitzer Mountain Resort to the domestic water system assets, and included it as part of the rate base calculation. We find, for the reasons set forth below, that instead of inclusion of the allocated purchase price of $355,000 into rate base, that an acquisition adjustment to rate base in the amount of $177,500 to be depreciated over a useful life of 50 years be included.

Staff attempted to verify financial information from Resort Water's predecessor that would help determine what rate base amount, if any, the previous owner may have had in the water system at the time of the bankruptcy and subsequent transfer out of bankruptcy to the

Applicant. Original accounting records were unavailable to adequately determine the original book value to calculate rate base at the time of purchase. There was, however, evidence suggesting that the predecessor company had made continual improvements to the system in the form of wells and water mains. There are no surviving source documents showing the cost incurred when these improvements were made. Additionally, there was no evidence to determine if the improvements were contributed plant. There was anecdotal evidence that connection fees were collected, but no evidence of when, from whom, or in what amounts. With this limited information, we were unable to determine if the amount allocated by the Company as a purchase price is more or less than the depreciated rate base less contributions of the previous owner.

It has been a consistent policy of the Commission that rate base not include the purchase price of a water system unless it could be reasonably shown that the customers have not previously paid for the water system assets. In this case, the source documents and contribution records from the predecessor company are not available. The prior company was not identified as a regulated utility where annual reports and prior Commission files would be available. The water system was part of a purchase from a bankruptcy estate which establishes that the total price paid for the entire resort property was at arms length. The allocated portion to the water system of $355,000 was based in part on an income ratio valuation completed by SNO Engineering of Littleton, New Hampshire. Resort Water asserted that this valuation established fair market value for the tangible assets functioning as the water system. However, as previously stated, this does not adequately determine the appropriate book value of the system less contributions.

The water system is an essential element of any business or resort operation on Schweitzer Mountain. Without the water system, the value of any purchase of the Schweitzer Mountain Resort would be greatly reduced. One could argue that a greater portion of the purchase price should be allocated to the ski resort operations and condominiums also purchased at the same time. However, some portion of the resort purchase price should be allocated to the water system. The water system provides service to many customers in the area who are not affiliated with the resort. If Resort Water had not decided to invest in the water system, there would have been many customers of the system without a means to receive domestic water. We therefore believe, under the facts of this case, that it is good public policy to allow a new water company to include as part of its rate base a portion of its investment in the purchase of a failed water company.

Nevertheless, we are not comfortable with accepting the Company's unsubstantiated allocation amount for inclusion in rate base because of our previously stated concerns regarding appropriate book value. We believe that the amount to be included in rate base as an acquisition adjustment must be determined on a case-by-case basis. In this case, the Company actually paid something for the water system as part of the total purchase, and there are tangible assets that function as a water system. Therefore, we are justified in finding that some portion of the purchase price should be included as an acquisition adjustment in rate base. The Company should only be allowed to seek recovery of the allocated purchase price if it is less than the previous owners' net rate base. Given the lack of information regarding net rate base, the age of the system and the fact that the system was purchased out of bankruptcy, we find it reasonable to allow an acquisition adjustment to rate base in the amount of $177,500 to be depreciated over a useful life of 50 years. With inclusion of the $177,500 acquisition adjustment in rate base, accumulated amortization/depreciation should be increased in the amount of $20,413. The annual amortization/depreciation expense for this adjustment is $3,550.

Commission Findings: We find an acquisition adjustment of $177,500, to be depreciated over a useful life of 50 years and included in rate base, to be just and reasonable and in accord with public policy.

2. Recent Improvements

The Company has operated the water system since 1999, and has made improvements to the system since that time. The most costly additions were two wells and a storage tank. Since 1999, the Company has expended a total of $509,331 in capital improvements that should be included in rate base. Attached as Attachment A to Staff's Comments is a detailed schedule of the improvements made to the water system since 1999. Attachment A to Staff's Comments also lists the dates showing when an asset was put into service and how much of the asset has been depreciated to date. As of August 31, 2004, the additions to rate base have accrued $56,369 in accumulated depreciation. The annual depreciation expense for these assets is $12,994.

3. Storage Tank Contribution

The Company has in the past collected a hook-up fee. Since 1999, the Company has collected $128,609 in the form of hook-up fees from customers connecting to the system. This is a deduction from rate base. The hook-up fees for one of the Resort's large condominium additions (White Pine Lodge) has not been paid to the Company. An affiliate company of the Applicant owns this facility. In lieu of the hook-up fee, the affiliate company has agreed to build an additional 60,000-gallon water storage facility and contribute it to Resort Water Company. Staff has determined that the additional storage tank would contribute to the ability of the water company to meet peak flows and have enough water capacity for firefighting. Therefore, the addition of the storage tank to the Company is a prudent addition to plant. Because the water storage tank will be contributed to the Company, it will not increase rate base nor impact rates paid. It will, however, make for a more reliable system, and therefore we find this contribution in lieu of the hook-up fee is prudent and reasonable.

4. Working Capital

The Company and Staff have agreed that working capital in the amount of $15,048 is reasonable and should be included in rate base. The amount is calculated based on 45 days of annual expenses as recommended by Staff in this case ($122,058/365 x 45). We find this to be a reasonable amount for working capital.

5. Rate Base Calculation

We find that total rate base for the Company be computed as follows:

System Improvements since 1999	$509,331
Working Cash	$ 15,048
Acquisition Adjustment	$177,500
Total	$701,879
Less:	
Accumulated Depreciation	($ 76,781)
Contributions to Capital	($128,609)
Net Rate Base	$496,489

Commission Findings: We find that Resort Water's net rate base should be set at $496,489. We find that contribution to the Company of the 60,000-gallon storage tank by the White Pine Lodge in lieu of a hook-up fee is prudent and reasonable.

IV. RETURN ON EQUITY AND CAPITAL STRUCTURE

1. Return on Equity

The Company has requested an 11% return on its equity. We find this request to be reasonable for this particular water company, and therefore adopt 11% as the rate of return on the Company's equity. The Company does not recognize any debt on its books. We find the capital structure acceptable with an effective 11% overall rate of return on its net rate base, or a annual return of $54,614. The overall effective tax rate of approximately 25.89%, results in a gross-up factor of 1.35. When the gross-up factor is applied to the return, the Company should be allowed to earn $73,729 as the pre-tax earnings requirement ($54,614 x 1.35).

2. Annual Expenses

The Company asserted it has annual expenses in the amount of $122,058. Approximately one-half of this is for gross labor cost. Staff audited the method of allocating each employee's time to determine how much time was spent doing exclusively water utility work, and how much time was spent doing work for the other entities. The other annual expenses were also audited to ensure that the Company was only paying expenses that are directly associated with the operation of the water utility. The Company did not include any amount transferred to its affiliates or parent as an annual expense. We find the labor allocation to be appropriate at this time for this case and agree that the amount of annual expenses is $122,058.

3. Revenue Requirement

The Company's total revenue requirement is the sum of the following:

Annual Expenses	$122,058
Annual Depreciation	$ 16,544
Grossed-up Return	$ 73,729
	$212,331

Commission Findings: We find that Resort Water's rates should include a return on equity of 11%; Resort Water's annual expenses should be set at $122,058; and Resort Water's annual revenue requirement should be set at $212,331.

V. RATE DESIGN

1. Customers & Equivalent Residential Units

Resort Water has an unmetered water system with a mix of commercial and residential customers. The nature of the mountain resort area and large amounts of snow covering meters makes individual metering difficult and impractical. Given the varied nature of the customer use, as well as the relatively unique nature of the ski mountain resort water company, the Company's proposed billing system uses an "equivalent residential unit" (ERU) as the means to determine monthly usage.

The ERU establishes a base-billing unit as the amount of water used by a single residential customer. It also is meant to create equity for unmetered customers by establishing a way to distinguish between different uses. The Company and Staff worked together to find a methodology for assigning a weighting determination for each customer. Because of the varied nature of usage discussed earlier and for ease of billing, all individual condominium and single-family residential units are treated equally, each as one (1) equivalent residential unit. The weighting of commercial and snowmaking uses are more difficult to establish.

The Company used the following methodology to estimate water flows to commercial units incorporated in multi-use buildings and to determine the flows associated with an equivalent residential unit. (See Staff Production Response No. 1.)

1. Take overall water usage from a known time period when a virtual 100% capacity of our users are present, and subtract all known water use from metered users, i.e., Mill Building and Lakeview Lodge.

2. Estimate the amount of water used from the various restaurants on the system using IDAPA 58.01.03.007.08 (Wastewater Flows from Various Establishments in Gallons per Day).

3. Subtract this quantity of water from overall water usage. After subtracting commercial usage, we should be left with residential users.

4. Divide (total water used – commercial use) by known residential users to develop a gallons per day (gpd) per ERU.

5. Apply this gpd per ERU to each of the commercial uses to determine new ERUs for each business.

6. Use historical data for Lakeview Lodge and Mill Building to determine ERUs attributable to each of the uses.

7. Change the number of customers (ERUs) in the rate calculation to determine a new calculation of rate per month per ERU.

8. Total ERUs change from 383.5 to 378.5 due to new commercial ERUs. Individual commercial ERUs changed slightly as shown. (See Attachment B to Staff's Comments for summary of results.)

Staff performed a similar analysis. Staff recommended adding an additional six commercial units uncounted in the Lazier Complex in the Company's revised ERU calculation. The result is a slight shifting of ERUs between the Company's initial Application and the recalculated ERUs. There is no change in the overall number of ERUs for residential and commercial customers. The Company, however, did not consider water usage for snowmaking equipment in either the Company's original Application or in its revised ERU calculations.

2. Snowmaking ERUs

Staff discussed this issue with the Company and Staff believes that snowmaking can be a significant user of the Company's water. Yet in years with adequate snowfall, there may be no snowmaking at all. In discussions with the Company, Staff discovered snowmaking has a maximum use of 120 gallons per minute for 12 hours and may be performed over a maximum of 8 days. Using this rate and the determined average use per ERU of 236 gallons per day, snowmaking would equate to 368 ERUs or an amount almost equal to the entire residential and commercial demand. Staff believes an assignment of this many ERUs to snowmaking would be unreasonable. The system does not have adequate capacity to provide water to all residential and commercial customers at system peak while at the same time provide maximum capacity for snowmaking.

Staff proposed the following ERU ratio for snowmaking. Snowmaking water usage would only occur during the ski season/winter months. Like the previous ERU determination, Staff believes snowmaking is a peak demand allocation. However, for snowmaking Staff proposed an ERU calculation based on contribution to the seasonal demand. If we assume the Company uses an average of four days of snowmaking over the ski season (assumed November 25 to March 31 or 126 days), then snowmaking days would be equal to approximately 3% of the total available peak season days. Staff believes snowmaking should then contribute approximately 3% of the total ERUs, or 12 ERUs. Staff recommended 12 ERUs for snowmaking and a total of 395 ERUs on the system.

Commission Findings: We find that water usage for Resort Water's customers should be measured on an equivalent residential unit (ERU) basis, and calculated as set forth above. We find it just and equitable to allocate some ERU's to the smowmaking activities. We find the current number of ERUs for the system to be 395, including 12 ERUs for snowmaking.

3. Monthly Flat Rates

Resort Water's service area is a ski resort subject to a considerable amount of snow cover. Its peak demand occurs sometime between Thanksgiving and New Years. The system peak is contrary to most other water systems with the typical peak demand occurring during the summer irrigation season. These three conditions (flat rates, snow cover, and holiday peaking) create unique rate design considerations. First, there are very few meters on the system. Second, even if there were meters, reading the meters would be nearly impossible because of the amount of snow covering the meters during the Company's short peak season. While we generally believe there are many advantages to metered rates, we do not believe meters and metered rates to be appropriate in this situation.

At the current time the Company is charging a flat rate of $33.00 per month per ERU. This would allow the Company annual revenue for the total recommended 395 ERUs of $156,420. Based upon the finding that the revenue requirement for the Company should be $212,331, the Company is currently under-earning and rates should be adjusted.

With an overall annual revenue requirement of $212,331 and a total of 395 ERUs the annual revenue requirement per ERU is $537.55. This equates to $44.80 per month per ERU. If every ERU provides $537.55 annually, the Company's revenue requirement would be satisfied.

The Company has proposed to continue billing an equal monthly flat rate. The Company has further notified Staff that it has not had a problem with seasonal disconnects or collections. Although Staff looked at two alternative rate designs, Annual and Seasonal Rates, based on the Company's experience and for ease of billing, Staff recommended a monthly flat rate of $44.80 per month per ERU. This amount is equal to the annual revenue requirement per ERU divided by 12 months.

Commission Findings: We find that the Company is currently under-earning, that current rates are unreasonable, and that an increase is justified pursuant to *Idaho Code* § 61-622. We find that the rate of $44.80 per month per ERU is just and reasonable.

4. Reconnection Charges

Because of the concern for seasonal disconnection, we find a two-tiered reconnection charge to be prudent: a $20 reconnection charge for disconnections of 30 days' duration or less; and a charge of $179.20 for disconnections of more than 30 days' duration. Additionally, we find it reasonable to include a $60 after hours charge for reconnections that are requested after hours.

Typically the reconnection charge for customers disconnected for 30 days or less is approximately equal to the direct cost of performing the reconnection. Cost for reconnections range from $10 to $35. The Company has requested a reconnection charge of $20. We find that a $20 reconnection charge for disconnection of 30 days duration or less is reasonable. We find that a reconnection charge for disconnections of more than 30 days' duration should be equal to four times the customer's monthly charge. This is based on the assumption that customers will likely be connected for the ski season (five months) and it typically takes two months for a customer to be disconnected for non-payment and one month or less for reconnection, leaving four months remaining where a customer may have little interest in paying.

The Company also requested an after hours reconnection charge of $60. Resort Water is somewhat remote and the Company's employees do not live within the service territory. The travel time from Sandpoint to the service territory is approximately 30 minutes in good weather and can be twice as long in winter driving conditions. Therefore, we find the requested $60 is a reasonable after hours reconnection charge.

Commission Findings: We find that the reconnection charge should be bifurcated into two charges in order to discourage seasonal disconnection. We find that a reconnection charge of $20 for those disconnected for 30 days or less, and a charge of $179.20 (four times the monthly charge) for those disconnected for more than 30 days, as well as an after hours reconnection charge of $60 to be just and reasonable.

5. Line Extension Agreement

Resort Water Company is located in a high growth area of Idaho. Even though growth has not occurred as fast as the Company initially anticipated, there is a considerable amount of growth potential in Resort Water's service area. The rates for Resort Water Company are on the high-end of the spectrum for small to mid-sized water companies. One factor providing upward pressure on rates is the level of rate base. Without an adequate line extension policy any growth on Resort's system will provide further upward pressure on rates. Properly designed line extension policies can appropriately allocate costs, minimize risk to the utility, and provide a stabilizing factor to the utility's general body of customers.

The Company had initially filed two line extension agreements with its Application. Staff worked with the Company to incorporate its recommendations into one document, "Main/Service Extension Agreement" attached to Staff's Comments as Attachment D. Approval of the proposed Main/Service Extension Agreement makes the "Multiple Family Housing Water System Agreement" unnecessary. There is sufficient flexibility in the proposed Main/Service Extension Agreement to address single-family development and multi-family/commercial development. Therefore, we approve the proposed Main/Service Extension Agreement and deny the Company's proposed Multiple Family Agreement.

Commission Findings: We find that in order to appropriately allocate costs, minimize risk to the utility, provide a stabilizing factor to the utility's general body of customers, and to relieve upward pressure on general rates the Company should adopt the Main/Service Extension Agreement attached to Staff's Comments as Attachment D.

6. Hook-up Fees

The Company did not request a hook-up fee in its Application. Most water utilities have a hook-up fee to cover the actual cost of the customer's service installation such as the service line and meter. Because Resort Water is a non-metered system, and according to the Company, all lots have a service line with a shut-off stubbed onto each property, there is no direct cost to the Company for the installation – with the exception of inspection time. We find that the Main/Service Extension Agreement is an adequate substitute to hook-up fees and should minimize the impact of growth on Resort Water's rate base.

Commission Findings: We find it acceptable that the Company has no hook-up fee given the adoption of the Main/Service Extension Agreement in Section V above.

7. Customer Rules

Our review of the customer rules submitted by Resort Water finds that they are based on rules approved for United Water Idaho with modifications to reflect Resort Water's particular situation. Staff has worked with the Company to assure consistency among previously approved water company rules and the Commission's Customer Relations Rules. We have further reviewed the various forms to be used by the Company and find the billing statement, initial delinquent notice, summary of rates, and summary of rules to be reasonable. We approve of the rules as agreed to by the Staff and the Company and included as Attachment F to Staff's Comments.

Commission Findings: We find that the Company should adopt the proposed Customer Rules included as Attachment F to Staff's Comments.

ULTIMATE FINDINGS OF FACT AND CONCLUSIONS OF LAW

Resort 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, 61-523.

As set out in the body of this Order, the Commission finds that the existing rates are unreasonable. The approved rates set forth in this Order are just and reasonable. *Idaho Code* § 61-622.

O R D E R

IT IS HEREBY ORDERED that Resort Water Company be granted a Certificate of Public Convenience and Necessity.

IT IS FURTHER ORDERED that new rates in the amount of $44.80 per month per ERU are approved. These rates are effective on and after March 15, 2005.

IT IS FURTHER ORDERED that the Company submit tariffs conforming to the rates set out above no later than April 15, 2005.

IT IS FURTHER ORDERED that the Company's total rate base be set at $701,879 (including an acquisition adjustment of $177,500). Additionally, contribution to the Company of the 60,000-gallon water storage tank by the White Pine Lodge in lieu of a hook-up fee is deemed prudent and reasonable, and is hereby ordered.

IT IS FURTHER ORDERED that Resort Water Company's Customer Rules and Main/Service Extension Agreement, as proposed by Staff and agreed to by the Company, are approved. Additionally the Company should charge a bifurcated reconnection charge as set for above in Section V.

IT IS FURTHER ORDERED that Resort Water measure water usage on an equivalent residential unit (ERU) basis, as calculated above in Section V.

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 with regard to any matter decided in 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 15th day of March 2005.

Paul Kjellander

PAUL KJELLANDER, PRESIDENT

Marsha H. Smith

MARSHA H. SMITH, COMMISSIONER

Dennis S. Hansen

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Jean D. Jewell

Jean D. Jewell
Commission Secretary

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