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IDAHO PUBLIC
UTILITIES COMMISSION

Capitol Water Corp.

2626 Eldorado Boise, Idaho 83704
Telephone 375-0931

April 1, 2024

Monica Barrios-Sanchez, Commission Secretary
Idaho Public Utilities Commission
P.O. Box 83720
Boise, Idaho 83720-0074

Re: CASE NO. CAP-W-24-01
IN THE MATTER OF THE APPLICATION
OF CAPITOL WATER CORP. TO
INCREASE ITS RATES AND CHARGES FOR
WATER SERVICE IN THE STATE OF IDAHO

Dear Ms. Barrios-Sanchez,

Attached is an application and accompanying exhibits and workpapers for approval of Capitol Water Corporation's request to increase its rates and charges.

This application requests that the Commission authorize a 24.61% increase in water rates as follows: increase customer rates by adding a monthly customer charge of $5.12 for all residential, commercial, and private fire protection customers. This would result in an increase in the Company's annual revenues of approximately $174,068. The Company requests that such changes in rates and charges be effective on April 1, 2024.

Capitol Water Corporation is requesting that the Commission process this application under its rules of modified procedure without hearing.

Sincerely,

H. Robert Price

H. Robert Price, President
Capitol Water Corporation

ROBERT PRICE
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF	)	
CAPITOL WATER CORPORATION	)	
FOR AUTHORITY TO	)	**CASE NO. CAP-W-24-01**
INCREASE ITS RATES AND CHARGES FOR	)	
WATER SERVICE IN THE STATE OF IDAHO.	)	
	)	
	)	

COMES NOW Capitol Water Corporation, hereinafter referred to as "Capitol Water" or "Company" and holder of Certificate of Public Convenience and Necessity No. 239 from the Idaho Public Utilities Commission hereby applies to the Commission for authorization to increase its rates and charges for water service.

Capitol Water is a corporation, duly qualified to do business in Idaho. The Company provides water service to 2521 residential, 279 commercial, and 35 private fire protection customers in the city of Boise in Ada County, Idaho, as of December 31, 2022. Application is made to the Commission to authorize a general 24.61% increase in water rates as follows: increase customer rates by adding a monthly service charge of $5.12 to all residential, commercial, and private fire protections customers. This would result in an increase in the Company's annual revenues of approximately $174,068. The Company has not had an increase in its basic rates and charges since Commission Order No. 30762 was issued on April 1, 2009, authorizing an increase in rates of 4.326% effective May 1, 2009.

The Company hereby certifies that it has notified its customers of the Application by inserting a notice in each customer's bill mailed on February 29, 2024. A similar notice has been provided to the local news outlets March 1, 2024. Copies of these notices are included with this Application.

The attached financial exhibits are based upon the actual recorded performance of the company. They are comparable to the annual reports filed with the Idaho Public Utilities Commission for the year 2022. The Company is proposing the use of the year 2022 as its test year for this case. The actual test data has been adjusted for known and measurable changes , with actual plant investments through calendar year 2023 and pro forma plant adjustments for calendar year 2024. The company believes that with the known and measurable adjustments that the 2022 test year is indicative of the Company's continuing operations.

Included with this Application are Exhibit Nos. 1 through 8 as follows:

Exhibit No. 1, Income Statement
Exhibit No. 2, Schedule A, Plant in Service
Exhibit No. 2, Schedule B, Accumulated Depreciation
Exhibit No. 3, Schedule A, Balance Sheet – Assets
Exhibit No. 3, Schedule B, Balance Sheet – Liabilities & Capital
Exhibit No. 4, Rate Base
Exhibit No. 5, Cost of Capital
Exhibit No. 6, Revenue Requirement
Exhibit No. 7, Proposed Tariff – Schedule 3 – add Service Charge
Exhibit No. 8, Customer Notice and Press Release.

Based upon the test year ended December 31, 2022, Capitol Water believes its proposed increase in rates is justified based on the known and measurable adjustments, pro forma adjustments, and corrections to Plant in Service, Contributions in Aid of Construction, and Advances for Construction.

Adjustment to Revenues

The Company proposes one adjustment to test year revenues to remove the $50,194 from Account 464 – Other Water Sales Revenue. This is shown on Exhibit 1, Line 5. For reporting purposes, Account 464 also includes income from Account 47110 is Income – Miscellaneous Charges and After-Hours Calls. For the test year, after hours calls and miscellaneous fees totaled $85. Included in this account (47110) is also a charge-off in the amount of $50,194. This is to move the remaining balance on the Signature Point contract from Advances for Construction, Account - 25211 to Miscellaneous Income. It is this charge-off that the Company is removing from revenues.

When a new development is proposed in the Capitol Water service territory, the Company, rather than increasing its Contributions in Aid of Construction, instead builds its rate base by using Advances for Construction. Over time, usually between 20 and 25 years, the developer is paid back this advance for construction.

Generally, the developer will advance the amount needed to build the water system for the project. The Company records the transaction as a debit to cash and a credit to Contributions in Aid of Construction ("CIAC"). When the Advances for Construction account is set up, the Company debits CIAC and credits Advances for Construction. Each project is given its own account number. When the water system for the project is built, the Company debits the appropriate plant in service account and credits cash for the payment to its contractor. Each year, according to the contract, the Company pays the developer a set amount, based on the terms of the contract, until the advance has been paid in full.

The Company has been working with its outside accountant to remove the contracts that are no longer active. As an example, Signature Pointe was such a contract, and was written off in 2022, with the amount recorded as miscellaneous income, and recorded in the 2022 Annual Report in Account 464 – Other Water Sales. Similar write-offs for inactive contracts were also written off in 2021. For the years 2010 through 2020, there were no such write-offs. This is not revenue that the Company expects to record in future years, as the Company has completed its write-offs for all its inactive contracts. Therefore, it is appropriate to remove this revenue to reflect the expected revenue more accurately.

<u>Adjustments to Expenses</u>

The Company proposes adjustments to Labor and Labor related expenses, Chemicals, Rate Case Expense, and Depreciation.

Labor and Labor Related Adjustments

The Company proposes adjustments to test year wages for accounts 601 through 603. This is shown on Exhibit 1, Lines 9 through 13. Workpapers are provided with the calculation shown for the increase in wages.

The adjustments to Labor incorporate a 10% increase in wages for employees. The Company implemented a 3% wage increase for employees in 2024 and plans to implement the remaining percentage as cash flow allows.

The Company has been unable to provide meaningful wage increases to employees, and this increase in wages will provide the necessary wages to in part, combat recent inflationary pressures, as well as compensate its employees with a competitive wage, reflective of the meritorious work provided by its employees. Capitol Water's compensation is designed to meet the following goals:

- **Performance and Merit**: The Company strives to reward its employees for exceptional performance and achievement. Recognizing and incentivizing high performers will boost morale and motivation, leading to increased productivity and loyalty.
- **Retention**: The Company offers pay increases to retain valuable employees. In the past, it has been difficult to attract and retain qualified labor, especially with the risk of losing them to competitors who offer higher salaries. Investing in retaining skilled and experienced staff members saves on recruitment and training costs associated with replacing them.
- **Market Competitiveness**: The Company strives to remain competitive within the utility industry. To the extent that information is available and relevant, the Company ensures that employees are compensated relative to their utility industry peers.
- **Cost of Living Increases**: Increases in the cost of living, inflation, and changes in economic conditions have necessitated adjustments to employee salaries to ensure their purchasing power is maintained. Failing to keep up with rising costs can lead to dissatisfaction and potential turnover.
- **Retention of Specialized Talent**: In the utility industry, specialized skills are in high demand, and offering pay increases to retain employees with unique expertise or qualifications is essential for maintaining a competitive edge and sustaining business operations.
- **Employee Engagement and Satisfaction**: Fair and competitive compensation is closely linked to employee satisfaction and engagement. Feeling adequately compensated for their contributions fosters a positive work environment, enhances job satisfaction, and promotes employee loyalty.
- **Employee Morale and Motivation**: Recognizing employees' contributions through pay increases boosts morale and motivates them to continue performing at their best. Feeling valued and appreciated for their work contributes to a positive organizational culture and enhances employee engagement.

Along with the increase in wages, there are adjustments for Employee Pensions and Benefits to reflect the increase in the Company's retirement contribution due to the salary increase. In addition, there is an adjustment in employer payroll taxes, reflecting the salary increases. These adjustments are shown on Exhibit 1, Lines 14 – Employer Contribution to 401(k) account, and Line 37 – Payroll Taxes. Workpapers are provided with the calculation shown for the increase in labor related adjustments tied to wages.

Chemicals

The Company has experienced an increase in the cost of the chemicals used to treat the iron in the wells. The unit cost for much of 2022 was $1.27 and has increased to $1.92. This adjustment reprices the phosphates used during calendar year 2022 with the latest known price of $1.92 per unit. This adjustment increases expenses $5,648 as shown on Exhibit 1, Line 17. Workpapers showing the calculation of the Chemicals adjustment are provided with this filing.

Rate Case Expense

The Company includes Rate Case Expense of $6,535. This is shown on Exhibit 1 on Line 27.

Depreciation Expense

The Company includes annual depreciation expense related to plant in service adjustments in the amount of $27,837, as shown on Exhibit No. 1, Line 32. Depreciation expense is calculated for all plant adjustments proposed by the Company, as discussed below. The Depreciation Worksheet, Exhibit No. 2, Schedule B – Accumulated Depreciation shows the depreciation expense by plant account. The actual calculation for the various plant accounts is shown in the workpapers accompanying this application.

Plant in Service Adjustments

There are three categories of adjustments to Plant in Service. The first is actual plant investments in 2023. The second is for corrections Contribution in Aid of Construction, with corresponding adjustments to plant in service, for investments made between 2019 and 2022.

These are primarily corrections of past journal entries. The third category is pro forma adjustments for investments planned for 2024.

Plant Investments in 2023

The company had substantial investments totaling $176,773 during 2023. Investments include major work at Well #5 for cleaning and rehab, a new vehicle for the water company to use in place of the large service truck, and new mains and services for a new contract, as well as ongoing investments to existing plant.

The company monitors its wells and pumps daily. When well and pump investments are required, the company makes the needed investments. The Company strives to maintain its system for safe, efficient, and cost-effective operations. To that end, the Company periodically cleans and rehabilitates its wells. In early spring of 2023, the Company cleaned and rehabilitated Well No. 5. The most recent cleaning and rehabilitation of Well No. 5 totaled $65,761.60.

To better serve its customers, the Company purchased a 2023 Ford Ranger XLT for $41,971.83 for daily use by the water operator. The Company made the decision to invest in a new for the following reasons:

- **Fuel Efficiency**: Newer vehicles often come with improved fuel efficiency technologies, such as smaller turbocharged engines, or advanced transmissions, which can significantly reduce fuel expenses compared to older models. This increased fuel efficiency was paramount in the decision to make the purchase.
- **Lower Maintenance Costs**: New vehicles typically require less maintenance than older ones, reducing the likelihood of costly repairs and unexpected breakdowns that can arise with aging vehicles. The Company's service truck, a 2008 Ford F350, is not only less fuel efficient than the new Ford Ranger XLT, but its future maintenance costs are also greater than a new vehicle. Purchasing a new vehicle will save wear and tear on the utility truck so that it will last longer.
- **Long-Term Savings**: Although the initial cost of purchasing a new vehicle may be higher, the long-term savings on fuel costs and maintenance expenses can often outweigh this initial investment, especially since the Company plans to keep the vehicle for several years.
- **Improved Performance**: Newer vehicles often come equipped with advanced technology and safety features that can enhance driver experience, productivity, and overall efficiency, contributing to cost savings in the long run.

The Company had new services and mains and other ongoing plant investments during 2023. The Company had one new Contract, accounted for in Account 252 - Advances for

Construction, totaling $44,564.42. When the work was completed by the Company's contractor, the investment was properly recorded to Account 309 – Mains, and Account 333 – Services. There is an offsetting transaction to Advances for Construction for the full amount of the contract.

The Company made various other plant investments during 2023 totaling $24,475.15. These include items such as upgrades to services and mains, wells, meters and miscellaneous tools and office items.

All the 2023 investments are shown on Exhibit No. 2 – Schedule A – Plant in Service in Column A, with the corresponding depreciation expense shown on Exhibit No. 2 – Schedule B – Accumulated Depreciation, Column A. The actual calculation for the various plant account additions is shown in the workpapers accompanying this application.

Corrections to Contributions in Aid of Construction

During 2019 through 2022, incorrect journal entries were made to Contributions in Aid of Construction and Plant in Service. When new contracts recorded to Account 252 – Advances for Construction were set up, the transactions were not properly recorded to plant in service. The following contracts were recorded to Contributions in Aid of Construction when the funds for the contracts were received, but not properly recorded to plant in service when the work was completed by the contractor: Milstick Apartments, David Benoit Subdivision, Broadview Subdivision, Villa Nostra, Latitude 40 Apartments, and the Anglican Church fire line. The adjustments correct transactions. Additions to Plant in Service total $153,180.00

Contributions in Aid of Construction, after adjustments, total $210,518 as a result of these corrections. The adjustments are shown on Exhibit No. 2 – Schedule A – Plant in Service, Column B. The actual calculation for the various plant account corrects are shown in the workpapers accompanying this application.

Pro Forma Investments for 2024

The Company plans the following pro forma investments totaling $174,103 as shown on exhibit No. 2 – Schedule A – Plant in Service, Column C:

- Cleaning and rehabilitation of Well #7 for $91,593.
- Safety fencing at Well #4 and at Well #7 for water source protection for $37,510.
- A new customer billing software system that will interface with QuickBooks for $45,000.

All the 2024 investments are shown on Exhibit No. 2 – Schedule A – Plant in Service in Column C, with the corresponding depreciation expense shown on Exhibit No. 2 – Schedule B – Accumulated Depreciation, Column C. The actual calculation for the various plant account additions is shown in the workpapers accompanying this application.

<u>Rate Base, Cost of Capital, and Revenue Requirement</u>

After the adjustments to Plant in Service, Accumulated Depreciation, Contributions in Aid of Construction, and Working Capital, the Company proposes a rate base of $1,143,371, as shown on Exhibit No. 4 – Rate Base. The Company uses one-eighth method of operating expenses to calculate its working capital adjustment of $65,872.

The Company proposes to continue using its authorized return on equity of 12% to calculate the cost of capital, as shown on Exhibit No. 5 – Cost of Capital. This was last authorized in 2009, Order No. 30762 and previously authorized in 2006, Order No. 30198.

The Revenue Requirement is shown on Exhibit No. 6 – Revenue Requirement. Using the Pro Forma Rate Base and the calculated required return on rate base, the Company calculated a revenue deficiency of $174,068, and an overall revenue requirement of $881,396.

The Company proposes that the additional revenue be allocated to all customers in the form of a service charge of $5.12 for all customers. The service charge will allow the Company to recover expenses related to infrastructure maintenance, meter reading, customer service, administrative costs, and other fixed operational costs that do not vary with usage levels. This will ensure that Capitol Water can maintain reliable service while covering its operating costs and providing needed infrastructure improvements.

Request for Relief

The Company requests that such changes in rates and charges be effective on April 1, 2024. The company requests that the Commission proceed with this case under Modified Procedure without hearing. A copy of the Application is available for public review at the Company's office.

Questions regarding this application should be addressed to :

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Please provide copies of all correspondence, notices, and orders to the above individuals.

Sincerely,

H. Robert Price

H. Robert Price, President
Capitol Water Corporation