BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF CAPITOL WATER CORPORATION'S APPLICATION TO CHANGE ITS SCHEDULE NO. 3 PURCHASED POWER COST ADJUSTMENT RATE	))))))	**CASE NO. CAP-W-24-02** **ORDER NO. 36437**

On October 9, 2024, Capitol Water Corporation ("Company") applied for authority to change its Schedule No. 3 - Purchased Power Cost Adjustment ("PPCA") rate to recover the 2023 electricity costs that exceeded what it collected in rates that year ("Application"). The Company filed supporting documents concurrent with its Application and requested that the Application be processed by Modified Procedure and that the tariff changes become effective by December 1, 2024.[1]

On November 13, 2024, the Commission issued a Notice of Application and Notice of Modified Procedure. Order No. 36391. Commission Staff ("Staff") filed comments to which the Company replied. No other comments were received.

Having reviewed the record, the Commission now issues this Order approving new PPCA rates, effective January 1, 2025.

THE APPLICATION

The Company stated that its base rates were approved in Commission Order No. 30762, which established power consumption at 1,454,401 kilowatt-hours ("kWh") with an average cost of 5.19¢ per kWh. This created a benchmark of $75,483.41 "for determining the incremental cost of power used to calculate the PPCA rate." Application at 1. While initially approving a three-year average, in Case No. CAP-W-17-01, the Commission later adopted 12-month power costs. In 2023, actual power costs reached $102,919, exceeding the amount collected through embedded base rates by $27,436 but falling $1,957 below current PPCA recovery.

The Company stated that it intended to adjust its PPCA rate from 4.51% to 4.21% (based on the Company's rates as of the filing of its Application). However, with possible rate changes

[1] Because a final order in the Company's pending general rate case (Case No. CAP-W-24-01) provided information that was necessary for Staff's analysis, it was not feasible for a final order to be issued in this case by December 1, 2024. Staff communicated these concerns to the Company. Staff's general timeline for comment deadlines was also discussed with the Company—which raised no objection.

that may occur in December 2024 due to the Company's general rate case (Case No. CAP-W-24-01), the Company (initially) requested implementing new PPCA rates simultaneously with the new rates established in the general rate case. The revised rate would divide the $27,436 incremental costs by the new base revenue established in Case No. CAP-W-24-01. The Company planned to notify customers of its proposal in November 2024 through bills and newspaper releases.

The Company stated that its system relies on seven wells. Well No. 1 remains on standby, and Well No. 2 is inoperative. Well Nos. 3 and 6 serve summer needs, with Well No. 6 handling Aquifer Storage Recovery ("ASR"). Well Nos. 5 and 7 provided year-round service with Well No. 7 also serving as the source for the ASR well (Well No. 6). Well No. 4 maintains summer standby status and does not typically run during winter months. Daily monitoring ensured efficient operations.

STAFF COMMENTS

After examining the Application, Staff agreed that 2023 power costs exceeded embedded costs by $27,436. Staff recommended reducing the PPCA rate from 4.51% to 3.34%, effective January 1, 2025. This recommendation depended on revenue approvals in Case No. CAP-W-24-01. Staff suggested requiring a compliance filing if different revenue was authorized, plus submission of an updated tariff reflecting approved rates.

PPCA Methodology

Staff stated that the Commission had approved methodology modifications to simplify the PPCA in 2017 in Order No. 33876. The new process involves comparing actual annual power cost expenses to those collected through embedded base rates during the annual deferral period and creating a true-up amount based on the difference. This true-up amount represents what needs to be credited or surcharged so customers pay actual power costs. The PPCA rate expresses this difference as a percentage of base rate revenue relative to the revenues the Company collects through embedded base rates.

<u>Revenue Stability</u>

Staff explained that accurate cost recovery required actual revenue to closely match assumed base rates, since the simplified method used by the Company to calculate the PPCA lacked reconciliation processes. Staff recommended monthly PPCA revenue tracking beginning January 1, 2025, with results reported in annual filings to determine if any adjustment is needed.

Consistent Deferral and Collection Periods

Staff emphasized maintaining consistent deferral and collection periods each year to avoid timing-related inaccuracies. While several previous PPCAs took effect in mid-November, the Company sought to align this PPCA with its general rate case for December 1, 2024. Staff needed the Commission-authorized revenue amount from the Company's general rate case, Case No. CAP-W-24-01, to calculate the updated rate.

After discussions, Staff and the Company agreed to delay implementation until January 1, 2025, recognizing this would result in overcollection due to extended use of the 4.51% rate currently in effect. Staff recommended developing an adjustment method for the next PPCA filing and tracking November-December 2024 PPCA revenue to facilitate necessary adjustments.

PPCA Calculation

Staff calculated a reduced PPCA rate of 3.34%, down from 4.51% (a decrease of 1.17%), pending Commission approval of its proposed revenue requirement in Case No. CAP-W-24-01. This change would lower surcharge collection from $37,048 to $27,346 during 2025, reducing revenue by $9,616. The adjustment reflected 2023's actual power costs of $102,919 versus embedded costs of $75,483 in base rates. Using Staff's proposed PPCA rate, the average ¾"-inch customer would see a $0.18 decrease from May through September, and a $0.08 decrease for all other months.

System Efficiency

Staff analyzed three years of pump efficiency by measuring water production against power consumption. Well No. 4 showed concerning efficiency drops, but analysis was complicated by year-round fixed power usage despite seasonal operation. Of note, Well No. 5's rehabilitation in early 2023 had improved its efficiency from 336.32 to 399.47 gallons per kilowatt-hour, demonstrating the benefits of maintenance.

To better assess Well No. 4's performance, Staff focused on peak production months when operational power significantly exceeded fixed consumption. This revealed 10-15% efficiency decline over three years. While bearing repairs in 2024 might have addressed the issue, Staff recommended monitoring Well No. 4's performance for potential rehabilitation.

Customer Notice and Press Release

Staff stated that the Company filed a customer notice and press release with its Application. Staff also explained that the Company sent a press release to the Idaho Statesman and the Idaho

Business Review. The notices lacked clarity about the proposed decrease and public review options and omitted certain feed subscription information. Furthermore, press releases went to newspapers in October and customer notices weren't scheduled until December 1, 2024, leaving insufficient time for comments before the December 5, 2024, deadline. Though the proposed decrease makes customer objections unlikely, Staff recommended accepting late comments. No comments had been received by December 5, 2024.

COMPANY REPLY

With the exception of recommendation No. 5, the Company did not agree with Staff's recommendations. The analysis of each recommendation the Company disagreed with can be found below.

Recommendation No. 1

The Company noted that it had maintained calendar year deferral periods since Order No. 33876 (which was intended to simplify the PPCA). The Company noted that previously filings occurred in September with November 15 effective dates, and that the current filing simply aligned with an anticipated effective date of new rates in general rate case. However, the Company expressed willingness to establish consistent filing dates and collection periods, suggesting January through December for future cycles.

Recommendation No. 2

The Company objected to Staff's recommended method for tracking of monthly PPCA revenue from January 1, 2025. The Company argued this would complicate the newly simplified PPCA method. The Company distinguished its PPCA from Idaho Power's power cost adjustment—noting the PPCA lacks true-up mechanisms and interest components. The Company emphasized that its PPCA fluctuated yearly based on power consumption and is not a refund.

The Company noted its recent rate case (Case No. CAP-W-24-01) would better align future PPCAs with base rates. The Company stated that it expected smaller future adjustments due to more frequent rate case filings which would ensure more accurate embedded power costs included in rates. The Company found Staff's revenue stability analysis lacked transparency and argued that, though Staff's examples did show a minimal impact, the largest collection variance was $2,465.

The Company expressed concern about adding complexity to the simplified method and indicated it would request interest components if true-up mechanisms were mandated.

Recommendation No. 3

The Company opposed tracking late 2024 PPCA revenue collections for the reasons stated above and noted that its original December 1, 2024, effective date request aligned with previous practices. The Company emphasized the simplified methodology never required tracking over- or under-collections, and the Commission had not previously mandated such monitoring. The Company again noted that the delayed implementation in this case stemmed from timing complications with its general rate case (Case No. CAP-W-24-01).

Recommendation No. 4

The Company corrected Staff's inaccurate account of the maintenance and repairs to Well No. 4. The Company noted that Well No. 4's repairs involved bearing replacement *and* motor maintenance—rather than leakage. The Company emphasized that its systematic approach to well maintenance is based on overall system needs and cost constraints.

The Company challenged Staff's efficiency analysis, explaining how variable speed pumps consumed power during idle periods without pumping water. The Company disputed Staff's claim about inability to determine cost prudence—noting that it provided power bills and well logs with each filing. The Company pointed out that Staff had not requested detailed discussions about system operations in current or past cases and had proposed no power cost adjustments in the ongoing rate case.

COMMISSION FINDINGS AND DECISION

The Commission has jurisdiction and authority over the Company and the issues raised in this case under Title 61 of the Idaho Code, specifically *Idaho Code* §§ 61-501, 61-502, and 61-503. The PPCA allows the Company to adjust its rates to reflect changes in power supply costs compared with the power costs collections embedded in rates. Order No. 30762. The Company's power costs are determined by two factors: (1) the amount of electric power used; and (2) the rate paid for electric power. This year, based on the data provided by the Company and analyzed by Staff—as well as the new information from the Commission's decision in the Company's recent rate case (Case No. CAP-W-24-01), the Commission finds it fair, just, and reasonable to adjust the Schedule No. 3 PPCA rate from 4.51% to 3.33%

Staff recommended that the Company use a deferral period based on the calendar year, and direct the Company to work with Staff to determine a consistent filing deadline; track the amount of PPCA revenue that is collected each month starting January 1, 2025, and report this information in the Company's PPCA filings each year; and track the amount of PPCA revenue collected for November and December 2024. The Company argued that these suggested measures would address problems that had already been solved with the Commission-approved simplified method and were unreasonably difficult and costly to administer, or were otherwise unnecessary. The Commission notes the Company's concern about unnecessary administrative burden and declines to grant Staff's recommendation for these issues.

The Commission notes Staff's concerns and recommendation regarding Well No. 4's efficiency. We agree that well efficiency is a crucial concern for small water companies like Capitol Water, given that electricity costs represent a large percentage of the costs to serve customers and these costs can increase due to well inefficiency. However, we are satisfied with the Company's proactive actions in maintaining Well No. 4. Due to the actions described by the Company on reply, the Commission does not see a need to order the Company to take further mitigation measures related to Well No. 4 at this time. However, the Company should work with Staff and monitor the efficiency of Well No. 4 to ensure that the issue does not require additional remediation.

Staff recommended that the Commission order the Company to review its customer notices with Staff prior to submitting future PPCA applications. Relatedly, Staff recommended that the Commission order the Company to send these notices with sufficient time to allow customers to file comments. The Company did not object to this request. The Commission finds this is reasonable and orders the Company to comply accordingly, including with the Rules of Procedure regarding notice to customers of pending rate changes.

Regarding the PPCA rate, we find that a PPCA rate of 3.33% is fair just and reasonable. The Commission finds that this rate is the most appropriate because it incorporates the most current information from the Company's recent general rate case. Because this adjusted rate is based on updated information from Case No. CAP-W-24-01, the Company is directed to file updated tariffs within 15 days. Therefore, the Commission approves a PPCA rate of 3.33% effective January 1, 2025.

ORDER

IT IS HEREBY ORDERED that the Commission approves adjusting the Company's Schedule No. 3 PPCA rate from 4.51% to 3.33%, effective January 1, 2025. The Company must file updated tariffs within 15 days of the service date of this Order.

IT IS FURTHER ORDERED that the Company work with Staff to monitor the tracking of the amount of PPCA revenue as well as the efficiency of Well No. 4.

IT IS FURTHER ORDERED that the Company will send its customer notices to Staff for review before filing future PPCA applications to ensure compliance. Relatedly, the Company is ordered to send these notices out with sufficient time to ensure that its customers have adequate time to file comments.

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 30th day of December 2024.

ERIC ANDERSON, PRESIDENT

JOHN R. HAMMOND JR., COMMISSIONER

EDWARD LODGE, COMMISSIONER

ATTEST:

Monica Barrios-Sanchez
Commission Secretary

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