DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

MYRNA WALTERS

TONYA CLARK

STEPHANIE MILLER

DAVID SCHUNKE

DON HOWELL

TERRI CARLOCK

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JUDY STOKES

GARY RICHARDSON

WORKING FILE

FROM:SCOTT WOODBURY

DATE:AUGUST 9, 1995

RE:CASE  NO. CAP-W-95-1

CAPITOL WATER CORPORATION

APPLICATION FOR RATE INCREASE (Permanent/Interim)

On July 11, 1995 Capitol Water Corporation (Capitol; Company) filed an Application with the Idaho Public Utilities Commission (Commission) for authority to increase its tariffed rates and charges for water utility service.  The Company is proposing a 25% increase.  The Company has requested that the Commission authorize the proposed change in prices for an effective date of September 1, 1995.  Should the Commission however determine that a hearing or detailed Staff analysis is required of the Company’s Application, Capitol requests pending final Order that the Commission authorize the Company to charge Schedule 1 customers an interim rate increase of $1.00/per month beginning September 1, 1995.

The Company proposes the following permanent and interim rates for residential customers, metered commercial customers and private fire, sprinkler and hose service customers:

CAPITOL WATER CORPORATION

PRESENT AND PROPOSED RATE COMPARISON

|  |  |  |  |
| --- | --- | --- | --- |
| Schedule No. 1 | Present  Rates | Proposed  Interim-Rates | Proposed  Permanent Rates |
| FLAT RATE - Rates--Monthly |  |  |  |
| 3/4" service | $ 8.06 | $ 9.06 | $10.14 |
| 1" service | $ 9.78 | $10.78 | $12.30 |
| 1-1/4" service | $10.89 | $11.89 | $13.70 |
| Sprinkling | $10.34 | $10.34 | $13.00 |

|  |  |  |  |
| --- | --- | --- | --- |
| Schedule No. 2 |  | Present  Rates | Proposed  Permanent Rates |
| METERED RATED  Rates--Monthly | 1000 cu. feet per month per 100 cu feet | $.79 | $  .99 |
| Next | 1000 cu. feet per month per 100 cu. feet | $.45 | $  .57 |
| Next | 2000 cu. feet per month per 100 cu. feet | $.34 | $  .43 |
| Minimum Charges:  The monthly minimum charges for service under this schedule shall not be less than the following for all customers. |
| Meter Size |  |  |  |
| 3/4" and smaller |  | $ 5.15 | $ 6.48 |
| 1" |  | $ 7.27 | $ 9.15 |
| 1-1/2" |  | $10.59 | $13.32 |
| 2" |  | $18.34 | $23.07 |
| 3" |  | $32.88 | $41.36 |

Schedule No. 3 - No change

|  |  |  |
| --- | --- | --- |
| Schedule No. 4 | Present  Rates | Proposed  Permanent Rates |
| RATES FOR PRIVATE FIRE SPRINKLER AND HOSE SERVICE - Rates--Monthly |
| For 3" Service or smaller, per month | $ 5.67 | $ 7.13 |
| For 4" Service per month | $ 7.93 | $ 9.98 |
| For 6" Service per month | $18.14 | $22.82 |
| For 8" Service per month | $29.47 | $37.07 |
| For 10" Service per month | $45.34 | $57.04 |

For purposes of this rate case, Capitol states that it has used a 1994 test year with adjustments for known and measurable changes in the year 1995.  The adjustments include the cost of restoring Well No. 3 to production, the refurbishing of Well No. 2, the increased expense of electricity associated with Well No. 3 coming back on line, and increased debt payments incident to the above described investment in well facilities.  The adjustments also include additional revenue from known and anticipated hook-ups.

Capitol is requesting that legal and rate case preparation costs in the amount of $13,000, together with unamortized rate case preparation costs of $2,000 from the Company’s 1993 rate case be placed in a deferral account and amortized through rates over a three-year period.

As represented, Capitol’s actual December 31, 1994 rate base was $519,030 which has been increased by $72,547 to $591,577.  Capitol contends that if allowed to recover these expenses and earn a reasonable rate of return, additional revenue of $96,427 is necessary over that presently allowed under current rates and tariffs.

Capitol states that it has not had a rate increase since early 1993 and that its flat rate per month for domestic customers has not increased since 1987.  As a result, Capitol contends that its earned rate of return and earnings on equity are no longer reasonable and adequate.  The Company contends that an immediate adjustment by way of increased revenue is necessary if Capitol is to maintain a financially stable condition and continue to render reliable and adequate water service to its customers.  As further justification for a rate increase, Capitol represents that the Company now has incurred substantial short- and long-term debt, which as a matter of necessity has been personally guaranteed by Mr. Price, individually.  Present earned rates of return the Company contends, are not adequate to service this debt and allow a reasonable rate of return.

In support of its Application the Company has filed testimony and exhibits showing financial statements, cost of capital, and documentation showing how the test year data was adjusted.  The present and proposed rate schedules and water service regulations are available for public inspection at Capitol’s office at 2626 Eldorado, Boise.

The Application of Capitol and the alleged facts set forth therein are verified as being true by Mr. Price, the Company’s president, who also indicates that the prefiled testimony and exhibits were prepared under his direction and control.  The Company requests that the Commission determine the accuracy of Capitol’s increased costs and revenue requirements, and determine a fair and reasonable return.  As previously indicated, an effective date of September 1, 1995 is requested.  Alternatively, the Company requests that the proposed interim rates be authorized for September 1 and that its Application be processed under Modified Procedure, i.e., by written submission rather than by hearing.  Reference Commission Rules of Procedure IDAPA 31.01.01.201 through .204.

STAFF ANALYSIS

Staff has not yet completed its audit of Capitol Water.  Staff believes, however, that a hearing is required on the Company’s request for a permanent rate increase.  Based on our review of the Company’s Application and related filings, Staff further believes that the Company has failed to adequately articulate or demonstrate a need for interim relief.  The Commission has generally looked to two criteria to assess the reasonableness and justification of interim rates: (1) financial hardship (emergency) and (2) beyond control (not easily foreseen).  The Commission has also authorized interim relief for recovery of investment placed in service.  It is Staff’s belief that the Company’s filing is deficient.  Staff recommends that the Company be provided the opportunity to amend and supplement its Application and testimony to justify an award of interim relief.  In this regard Staff would suggest a Company file deadline of August 18.  The Company has requested modified procedure with any award of interim rate relief subject to rebate.  Staff has no objection to this procedure and would suggest a comment deadline of August 28.  A decision meeting is scheduled for August 31.

Regarding permanent rates, Staff believes that it can complete its investigation and file testimony by October 13.  A hearing can be scheduled for November 2 or 3.

COMMISSION DECISION

1.  Notice of Application

2.  Amended Application/testimony deadline (8/18)?

3.  Intervention

4.  Interim rates (subject to rebate)—modified procedure?

Comment deadline (8/28)?

vld/M:CAP-W-95-1.swScott D. Woodbury