

Diamond Bar Estates Homeowners Association

1952 W. Diamond Bar Rd.

Rathdrum, ID 83858

May 12, 2016

Idaho Public Utilities Commission
P.O. Box 83720
472 W. Washington Boise, ID 83702
Boise, ID 83720-0074
(208) 334-0300

Subject: Water Case No. DIA-W-15-01
Water Rates Committee Response #1

Since the request for a large increase in water rates for Diamond Bar Estates residences depends on the revenues and expenses incurred by the Diamond Bar Estates Water District, it is imperative that all expenses be examined for validity and to ensure that all income is properly accounted for. This is the only way to accurately determine the actual profit or loss incurred by DBEWD. Here are some issues that must be examined to ensure that the financial statements are accurate:

- Were the recommendations by the DEQ implemented and were there any rebates to DBEWD for those conservation steps?
- Was the insurance for the pumps cancelled? Did the water district operate without this insurance and did this cause a large expense to the company when another pump failed? If so, is this a reasonable and prudent method of operation?
- There have been several pumps that failed in the past few years, and the service records indicate amounts spent to replace them. Have there been any refunds from the pump suppliers or manufacturers that offset the costs to DBEWD that were not shown on the annual reports?
- Have the insurance payments been included in the revenues shown in the annual reports? Given that since 2008 there have been insurance payments of \$5630, \$9500, and \$4170 shown on the service record while the revenues have remained fairly constant in the range of \$23,651 (2012) to \$26,337 (2014), it seems clear that \$19,301 has been left off the annual reports. This amounts to an increase of \$2757 per year that goes towards the profitability of the company.
- The 2010 annual report shows a huge increase in labor for Operation and Maintenance. It is actually over \$15,000 more than the previous two years, and the only issue listed on the service record is the pump failure at Well #2, the one on Mr. Turnipseed's property. This is the only conclusion that one can come to from the records provided, and the question is whether or not this was a proper expense for DBEWD to incur on behalf of the company, and if it is allowable to be passed on to customers as a valid expense. If the residents of Diamond Bar Estates have no rights to that well, it should not be an allowable expense. At \$15,000, this is \$2,142 per year that should not go into the rate base and would increase the profitability of DBEWD by that same annual amount.

- There are disturbing anomalies in the annual reports that must be explained. Proper accounting principle dictate that a year-end value for one item must equal the following year’s beginning value. There are several instances where this does not happen, as shown in the following table. This MUST be examined and explained, since the values of the Plant In Service are used to justify the requested rate increases. Given these inconsistencies, how can we have any confidence that the numbers presented in these reports are accurate?
 - Why is one value left blank in the 2013 annual report?
 - Why does the Operations and Labor value spike up so high in 2010?
 - Why do the 12/31 to 1/1 values not match for Plant in Service and Asset Balance?
 - Why is the value at year end 2010 a negative number?
 - Why does the exact value of \$15,911 appear in so many places over several years? That is quite unusual and suspicious.
 - Why did the Plant In Service and Asset Balance values spike so high in 2014?

Year	Ops Expense	Revenues	Plant In Service- Jan 1	Plant In Service December 31	Asset Balance January 1	Asset Balance December 31	Change in Asset Balance
2008	20,549	23,725	16,741	15,911	17,043	18,095	1,052
2009	18,932	25,594	15,911	15,911	18,095	22,418	4,323
2010	38,080	24,101	15,911	18,061	22,418	-4,770	-27,188
2011	22,736	24,098	18,061	18,061	17,648	23,556	5908
2012	26,071	23,651	30,245	30,245	24,759	23,181	-1,578
2013	28,073	25,942	15,911	Blank	15,911	15,911	0
2014	27,191	26,337	34,949	48,388	27,761	42,842	15,081

Unusual matching number entries have been highlighted in yellow. Anomalies showing large and unexpected changes that must be explained are bolded in red.

There are additional issues that the residents of Diamond Bar Estates think must be considered when evaluating the performance of DBEWD and whether their request for an 80% increase is justified. Several times in the public workshop with the PUC staff they mentioned the term “prudent”. In other words, was a particular expense incurred by the company prudent or was it frivolous or unnecessary? In addition to applying that standard to individual expenses, it should also be applied to operational decisions that could lead to incurring unnecessary costs. The following points are items of concern in that regard:

- Did DBEWD operate without insurance on the pumps, thus incurring a major expense for pump replacement(s) when they failed?

May 12, 2016

Page 3

- Did DBEWD ever do a thorough examination of the electrical system prior to August/September of 2015 to try to find the source of the pump failures? If not, why not? Given that for large industrial 480V pumps like these the expected life is 10-20 years, so having multiple pump failures within such a short time should have raised huge red flags for the operator. Research indicates that a reasonable mean time to failure is 10-15 years, but these pumps were failing at a much greater rate than that. Not doing a good forensic analysis of this problem is NOT a prudent and reasonable business practice.
- Have all the recommendations from the AEI engineering report been implemented? If not, this is definitely not reasonable and prudent management of the company assets. An estimate from an electrical contractor has given a ballpark estimate of \$12,000 to complete the required work, which is less than it has cost to replace just one pump. Also, AEI is confident that although it cannot be proven with certainty exactly which electrical problem is/was at fault, completing the full list of recommendations will eliminate the ongoing pump failure problem that DBEWD has experienced. It is clearly a prudent step to take to invest in these preventive measures to eliminate future pump failures.

A final area of concern for the Diamond Bar Estates residences is the length of time it has taken to bring the primary well back on line when the pump has failed. In just the past two years we have seen the following:

- 8/18/2014 to 9/10/2014, 19 days
- 4/16/2015 to 4/17/2015, 2 days
- 6/10/2015 to 6/12/2015, 3 days
- 8/24/2015 to 9/8/2015, 16 days

We are fortunate to have had water supplied to us by the backup well on Mr. Turnipseed's property, but apparently there is no right to this water or well. Given the past record of pump failures, this puts the residents at great risk from future pump failures should this property change hands. Although the residents have cooperated in the past by stopping irrigation during these times, future failures puts domestic supply as well as fire supplies at great risk. Perhaps consideration should be given to providing legal rights to this water/well in exchange for allowing some of the expenses for the backup well to be incorporated into the rate request.

Diamond Bar Estates Homeowners Association
Water Rates Committee

Nate Simmons, Committee Member
Darrel Ramus, Director
Mike Tillery, Director
Glenn Fetter, Director