

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER RAPER
COMMISSIONER ANDERSON
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL**

**FROM: BRANDON KARPEN
DEPUTY ATTORNEY GENERAL**

DATE: DECEMBER 14, 2018

**SUBJECT: EAGLE WATER COMPANY'S APPLICATION FOR APPROVAL OF A
CUSTOMER SURCHARGE; CASE NO. EAG-W-15-01**

On November 10, 2015, Eagle Water Company filed an Application seeking authority to implement an immediate and temporary surcharge of 53.82% on customers' water usage in excess of 600 cubic feet per month. The Company also requested permission to access funds in an existing surcharge account. The new surcharge and the existing balance in the surcharge account would be used by Eagle Water to pay for several large capital improvement projects, and its legal and accounting fees associated with this proceeding. Application at 3-5.

On December 3, 2015, the Commission issued a Notice of Application and Notice of Intervention Deadline. No intervenors appeared. The Commission also suspended the proposed effective date for a period of 90 days, until March 10, 2016. Order No. 33430. The Company subsequently agreed to several further suspensions. *See* Order Nos. 33478, 33509. On August 10, 2016, the Commission approved a stipulation between the Company and Staff to stay all proceedings in this matter for one year, or "until such a time that the parties file a joint motion to lift the stay." Order No. 33567. In October 2017, the Commission granted an indefinite stay of all proceedings. Order No. 33911.

On December 14, 2018, Staff filed a Motion requesting the Commission approve a settlement in this matter, and order a procedural schedule. This motion is now before the Commission.

PROPOSED SETTLEMENT

As an initial matter, the parties represent that the Stipulation and proposed Settlement is in the public interest and is fair, just and reasonable. The parties acknowledge that the Commission is not bound by these representations and that the Commission will independently review the proposed settlement to decide whether to approve it, reject it, or state conditions under which to accept it. By way of summary, the Stipulation and Settlement proposes to fully resolve the case as follows:

1. Rates and charges

The resulting settlement will not increase rates or charges to any Eagle Water customer. Rather, the Company will discontinue hookup charges of \$600 per Tariff Schedule No. 5. The balance of the hookup charge account (approximately \$370,000) will remain in the account to be used as a line-of-credit.

2. Accounting Correction

The parties submit that the Company has accumulated a substantial negative rate base through years of improperly booking capital expenditures, and failing to maintain documentation of plant. The negative rate base has accumulated to the point of creating unsound ratemaking requests, such as the proposed surcharge in the underlying application. Based on an extensive audit conducted by Staff, the parties agree that a one-time accounting correction be made. That is, an elimination of negative base in 2008 of \$1,236,375 in year 2008 represented in contributions in aid of construction.

3. Capitalized Plant

The parties have agreed to allow capitalization of improperly documented plant. The parties have agreed to include the Company's well 8, meters, repairs, equipment, materials, and labor. Going forward, the Company must properly document and capitalize all plant and labor.

4. Accounting and Reporting

The parties have agreed that the Company will provide Staff with quarterly reports of costs and expenses. Staff will conduct routine audits to ensure proper booking of expenditures.

5. Collaboration on Tariffs

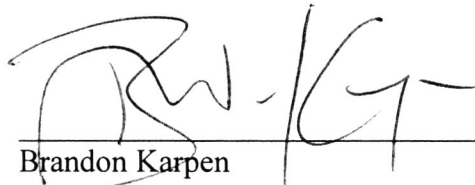
The Company agreed to work with Staff to update the Company's tariff language to the Commission's satisfaction.

STAFF RECOMMENDATION

Staff recommends that the Commission issue Notice of the proposed settlement, and an Order that the parties file written comments in support of the proposed settlement within 21 days and that public comments remain open for the same period.

COMMISSION DECISION

Does the Commission wish to issue an Order that adopts the recommended schedule as described above?



Brandon Karpen
Deputy Attorney General

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BRANDON KARPEN, ISB No. 7956
Deputy Attorney General
State of Idaho
Idaho Public Utilities Commission Staff
P.O. Box 83720
Boise, Idaho 83720-0074
Telephone: (208) 334-0357
Facsimile: (208) 334-3762
brandon.karpen@puc.idaho.gov

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STATE OF IDAHO
PUBLIC UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF EAGLE WATER
COMPANY'S APPLICATION FOR
AUTHORITY TO IMPLEMENT A
CUSTOMER SURCHARGE**

CASE NO. EAG-W-15-01

**MOTION FOR APPROVAL OF
STIPULATION AND SETTLEMENT**

The Idaho Public Utilities Commission Staff hereby moves the Commission for an Order accepting the Settlement Stipulation filed herewith. *See* Commission Rules 56, 276 and 274.

1. On November 10, 2015, Eagle Water Company filed an Application seeking authority to implement an immediate and temporary surcharge of 53.82% on customers' water usage in excess of 600 cubic feet per month. The Company also requested permission to access funds in an existing surcharge account.

2. The Commission suspended the proposed effective date several times, and eventually stayed the application indefinitely. *See* Order Nos. 33478, 33509, 33567, and 33911.

3. After numerous audits, and extensive settlement discussions, the Staff and the Company (the only Parties appearing in the case), agreed to resolve and settle all issues in the case. A copy of the signed Stipulation evidencing that settlement is attached to this motion as Attachment 1.

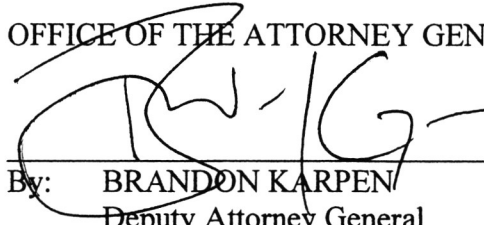
4. The Parties respectfully request that the Commission consider the Motion, the Stipulation, and the comments in support of the Stipulation to be filed at a later time.

5. As noted in the Stipulation, the Parties agree that the agreement is in the public interest and that all of its terms and conditions are fair, just and reasonable.

NOW, THEREFORE, the Parties respectfully request that the Commission issue an order in Case No. EAG-W-15-01 granting this Motion and accepting the Stipulation (Attachment 1), in its entirety, without material change or condition.

Respectfully submitted this 14th day of December, 2018.

OFFICE OF THE ATTORNEY GENERAL



By: BRANDON KARPEN
Deputy Attorney General
Attorney for the Idaho Public Utilities
Commission Staff

BRANDON KARPEN, ISB No. 7956
Deputy Attorney General
P.O. Box 83720
Boise, Idaho 83720-0074
Telephone: (208) 334-0357
Attorney for Commission Staff

MOLLY O'LEARY, ISB No. 4996
BizCounselor@Law, PLLC
1775 W. State Street #150
Boise, Idaho 83702
Telephone: (208) 453-6106
Attorney for Eagle Water Company, Inc.

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF EAGLE WATER) CASE NO. EAG-W-15-01
COMPANY'S APPLICATION FOR)
AUTHORITY TO IMPLEMENT A) JOINT SETTLEMENT
CUSTOMER SURCHARGE) STIPULATION
)

This Settlement Stipulation is entered into by Eagle Water Company and the Staff of the Idaho Public Utilities Commission (collectively, "Parties"). The Parties, by and through their counsel of record, hereby stipulate and agree to the following:

INTRODUCTION

The Parties agree this Stipulation represents a fair, just and reasonable compromise of the issues raised in Eagle Water's Application for authority to implement a customer surcharge, and beyond the issues raised in the Company's Application to recognize the needs and conditions of the Company. The resulting settlement will not increase rates or charges to customers, and is in the public interest. The Parties believe the Stipulation and its acceptance by the Commission represents a reasonable resolution of the systemic issues identified in this matter. The Parties, therefore, recommend that the Commission, in accordance with Rule 274, approve the Stipulation and all of its terms and conditions without material change or condition.

BACKGROUND

1. On November 10, 2015, Eagle Water filed an Application seeking authority to implement a 53.82% surcharge on customers' water usage. Eagle Water requested that its Application be processed via Modified Procedure and that the surcharge become effective in approximately 30 days. On December 3, 2015, the Commission issued Order No. 33430 suspending the proposed effective date for a period of 90 days, until March 10, 2016.

2. On March 4, 2016, with Eagle Water's concurrence, Staff filed a motion to further suspend the proposed effective date in this matter for an additional 90 days, until June 8, 2016. The Commission approved the Motion in Order No. 33478.

3. On April 25, 2016, pursuant to *Idaho Code* § 61-622(4), the parties jointly stipulated to again suspend the effective date in this matter until September 6, 2016. The parties further agreed that by July 1, 2016, Eagle Water would inform Staff of its position on settlement, or if the Company would rather set a schedule for modified procedure for the Application. The Commission approved this request in Order No. 33509.

4. Following the stipulated suspensions, on August 10, 2016, by agreement, the the case was stayed until a full resolution of the issues was reached, or dismissal was requested by Staff. *See* Order Nos. 33567, 33836, and 33911.

5. On December 4, 2018, the Company and Staff agreed to a full settlement.

TERMS OF THE STIPULATION

6. Fair Resolution. The settlement is reached as a fair resolution to several disputed issues between the parties, recognizing that no party was likely to prevail on every issue at hearing. The settlement results in a significant change to the Company's financial books through the allowance of a one-time accounting adjustment. Customer rates will remain the same. The Parties consider this a one-time accounting correction—an atypical process unique to the Company's circumstances. This is not a reward for the Company, but a measure to ensure stability for the Company and its customers based on reasonable evidence.

7. Negative Rate Base. The parties agree that the Company has accumulated a negative rate base through years of improperly booking capital expenditures, and providing inadequate documentation of plant installation. The negative rate base has accumulated to the point of creating unsound ratemaking requests. The parties agree to a one time elimination of negative base in 2008 by reducing \$1,236,375 in year 2008 contributions in aid of construction.

Year 2008 is used for the purpose of settlement due to the construction of well number 8 during that year. Until now, well 8 has only been partially capitalized. The settlement capitalizes all documented well 8 costs as plant in service.

8. Plant. The plant in service referenced in the Company's Application will be capitalized, so long as the plant has not been previously capitalized and is supported by invoices and proper documentation. This includes plant, equipment, materials, and labor, as specified in The Company shall be allowed to capitalize a 15% labor adder for this plant to reflect the Company's undocumented labor costs. Going forward, the Company must properly document and capitalize actual labor costs.

9. Other Plant. The parties agree to allow capitalization of certain plant in service items put in service 2009-2015, such as meters, wells, and repairs that should have been capitalized previously by the company, but were found by Staff to be improperly booked by the Company.

10. Depreciation. Allow the Company to depreciate this newly capitalized plant and begin depreciation as if placed in service, allowing for depreciation of the full amount.

11. Meter Charges. The parties agree to allow the Company to continue to collect a \$245 meter charge. The Company agrees, that as a condition to allowing this charge, that it will properly capitalize the meters and installation cost into plant-in-service in order to prevent a reoccurrence of negative rate base. Labor will be properly allocated between capitalized and expensed amounts. The Company acknowledges the meter charge may not change without prior Commission approval.

12. Hookup charges/Line of credit. The Company will discontinue the \$100 and \$500 hookup charges it has been collecting per Tariff Schedule No. 5. The balance of the accounts that contain the hookup charges (\$365,580, as of July 12, 2018) will be allowed to remain in the surcharge account, and going forward be used as a line-of-credit (funds to be used and repaid). The parties agree that the Company will deposit \$45,288 of overearnings annually in to the surcharge line-of-credit account beginning in 2016. This arrangement shall remain until the Company requests and the Commission approves different treatment.

13. Rent. The parties agree to allow the Company include in its revenue requirement office rent of \$950 per month. While Staff found that the Company had improperly booked its

office space rent in the past, the parties agree that \$950 per month for the water company is a reasonable compromise, and represents a proper market value.

14. Reallocation of costs. The Parties agree to Staff adjustments to the Company's revenue requirement for reallocation of costs between the Company and the owners' comingled construction business. Costs were added and removed to properly reflect the correct business expenses and costs.

15. Water Testing. The parties agree to allow the Company to increase the revenue requirement for water testing costs to better reflect the normalized costs over a 9-year testing cycle.

16. Accounting and reporting. The Company agrees that it will provide Staff with quarterly reports. Staff will conduct routine audits to ensure proper booking of expenditures.

17. Successor in Interest. Any successor in interest to Eagle Water shall comply with all terms of this agreement

CUSTOMER RATES

18. Customer Rates. The parties agree that the Company's water rates will be unchanged as a result of this agreement.

19. Tariffs. The Company agrees to work with Staff to update the Company's tariff language.

FURTHER COOPERATION

20. Supporting Comments. The Parties will file written comments supporting this Stipulation within 21 days of the Commission providing notice of the proposed Stipulation.

21. Just and Reasonable: The Parties agree that this Stipulation is in the public's interest and that all of its terms and conditions are fair, just and reasonable. The Parties agree to use their best efforts to obtain Commission approval of the Stipulation.

22. No Acknowledgement. No Party shall be bound, benefited or prejudiced by any position asserted in the negotiation of this Stipulation, except to the extent expressly stated herein, nor shall this Stipulation be construed as a waiver of the rights of any Party unless such rights are expressly waived herein. Execution of this Stipulation shall not be deemed to constitute an acknowledgement by any Party of the validity or invalidity of any particular method, theory or principle of regulation or cost recovery. No Party shall be deemed to have agreed that any method, theory or principle of regulation or cost recovery employed in arriving at

this Stipulation is appropriate for resolving any issues in any other proceeding in the future. No findings of fact or conclusion of law other than those stated herein shall be deemed to be implicit in this Stipulation.

23. Commission Approval. The obligations of the Parties under this Stipulation are subject to the Commission's approval of this Stipulation in accordance with RP 274-276.

24. Confidentiality. The Parties agree that this Stipulation represents a compromise of the positions of the Parties. Therefore, other than any testimony filed in support of the approval of this Stipulation, and except to the extent necessary for a Party to explain before the Commission its own statements and positions with respect to the Stipulation, as directed by RP 272, all statements made and positions taken in negotiations relating to this Stipulation shall be confidential and will not be admissible in evidence in this or any other proceeding.

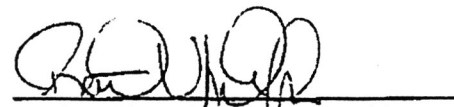
25. Best Efforts. The Parties submit this Stipulation to the Commission and recommend approval in its entirety. Parties shall support this Stipulation before the Commission, and no Party shall appeal a Commission Order approving the Stipulation or an issue resolved by the Stipulation. If this Stipulation is challenged by any person not a party to the Stipulation, the Parties to this Stipulation reserve the right to file testimony, cross-examine witnesses, and put on such case, as they deem appropriate to respond fully to the issues presented, including the right to raise issues that are incorporated in the settlements embodied in this Stipulation. Notwithstanding this reservation of rights, the Parties to this Stipulation agree that they will continue to support the Commission's adoption of the terms of this Stipulation.

26. Counterparts. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

DATED this 10th day of December 2018.


Terri Carlock, Utilities Division Administrator
Idaho Public Utilities Commission Staff

DATED this 4th day of December 2018.


Robert V. DeShazo, Jr., President
Eagle Water Company, Inc.