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Attorneys for the Commission Staff

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF EAGLE WATER )**  
**COMPANY'S APPLICATION FOR )** **CASE NO. EAG-W-15-01**  
**AUTHORITY TO IMPLEMENT A CUSTOMER )**  
**SURCHARGE )** **COMMENTS OF THE**  
**)** **COMMISSION STAFF**  
**)**  

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**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Edith Pacillo, Deputy Attorney General, and in response to the Notice of Proposed Settlement and Notice of Modified Procedure issued in Order No. 34225 on December 28, 2018, in Case No. EAG-W-15-01, submits the following comments.

**BACKGROUND**

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 over 600 cubic feet per month. The Company also requested permission to access funds in an existing surcharge account. The Company would use the new surcharge and the existing balance in the surcharge account 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 parties intervened in the case. The Commission also suspended the proposed effective date for 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 Joint Settlement Stipulation (the “Settlement”) in this matter, and order a procedural schedule. Staff also reported that the parties jointly recommend that the Commission lift the stay and process the proposed Settlement by Modified Procedure. On December 28, 2018, in Order No. 34225, the Commission lifted the stay, provided notice of the proposed Settlement, and set a January 16, 2019 comment deadline.

## **STAFF REVIEW**

Staff performed an extensive audit of the books and records of Eagle Water Company for the years 2015 through 2017, as well as plant additions since 2008. The scope of the audit was intended to determine the reasonableness of Eagle Water Company’s operating results as reported to the Idaho Public Utilities Commission and in conjunction with the Company’s request for a surcharge in this case. During the course of the audit, Staff discovered that the Company had incorrectly expensed capital improvements, commingled funds between its regulated and unregulated operations, and has negative rate base resulting in over-earnings during 2015-2017. Each of these items is discussed in greater detail below and addressed in the Settlement.

## **Regulated and Non-Regulated Operations**

Eagle Water Company is in the business of providing domestic water service to customers in and around the City of Eagle, Idaho. The Company also operates a non-utility construction business that installs water, sewer, and storm drain systems in new real estate development. The two business activities are conducted as a single corporation, and file one consolidated income tax return. Employees of Eagle Water Company perform duties for both

the regulated utility activities and the construction activities of the Company. Currently there are accounts set up that, if used correctly, would provide separation between regulated and non-regulated activities. However, there is no formal separation between the two business activities. Formal separation of the business activities would provide cleaner accounting records and would protect the water utility operations from a liability arising from construction activities.

### **Improper Accounting**

The Company has not properly allocated common expenses between regulated and non-regulated activities. For example, all wages for the office employees are charged to the regulated water company, although work is performed for both the regulated and non-regulated business activities. Some expenses are allocated based on payroll, such as employee benefits, but Staff notes that most employer payroll taxes have been attributed to the regulated water operations. In addition, Staff found that some non-regulated expenses are charged entirely to the regulated water company. These expenses included property taxes, liability insurance, and depreciation expense.

In addition to not allocating expenses, or properly assigning expenses to the correct business entity, the Company also improperly booked capital improvements. The Company routinely expensed items that should be capitalized as plant-in-service, reflecting the expense on the income statement rather than the balance sheet and depreciated over the life of the asset. This practice, and the continuing hook-up surcharges that are a reduction to rate base, have contributed to the negative rate base.

### **The Settlement Stipulation**

Staff believes the proposed Settlement represents a fair resolution of the issues identified and recommends it be approved as fair, just, reasonable, and in the public interest. Staff and the Company have worked diligently to settle all issues regarding the Company's Application for an immediate surcharge. Customer water rates will not change as a result of the Settlement.

In summary, the Settlement proposes to fully resolve the case as follows:

### ***Rate Base***

The Company has improperly booked capital expenditures and maintained inadequate documentation of plant installation for many years. Since hook-up surcharges are a reduction to rate base, the improper treatment of capital expenditures continued to compound a negative rate base. Staff has verified the plant installations where possible. Staff also believes the cost of some plant items were not included in plant-in-service at all due to the improper records. For these and other reasons, Staff believes it is reasonable to make a one-time adjustment to offset the negative rate base. This will allow for more reasonable filings in the future. This Settlement provides a one-time elimination of negative rate base in 2008 by reducing \$1,236,375 in year 2008 contributions in aid of construction. This adjustment brings the rate base in 2008 to zero. Year 2008 is used for the purpose of the Settlement because of the construction of well number 8 during that year. Well number 8 had only been partially capitalized. This Settlement allows the Company to capitalize all documented well number 8 costs as plant-in-service. Additional 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. The Settlement also allows for the capitalization of certain plant-in-service items placed into service after 2008, such as meters, wells, and repairs that were improperly expensed by the Company. The Company will begin depreciating this newly capitalized plant as if just placed in service, allowing for depreciation of the full amount.

### ***Expenses***

The Settlement corrects multiple accounting errors discovered by Staff during the audit in which shared costs were not properly allocated between regulated and non-regulated operations. The parties agree that Staff's adjustments to the Company's revenue requirement for a reallocation of costs between the Company and the owners' comingled construction business are reasonable.

The Settlement allows the Company to include in its revenue requirement office rent of \$950 per month. Staff's audit discovered that the Company had improperly booked its office space rent in the past. The parties agree that including \$950 per month in office space rent is a reasonable market based rent for the water company share of the office space. It is also a reasonable compromise.

Additionally, the Company will be allowed to include a higher increase for water testing costs in its revenue requirement. Normalized costs over a nine-year testing cycle better reflect the true cost of testing.

### ***Surcharge Balances***

The Company has three surcharge balances that will be used for the benefit of customers. These balances arise from three separate surcharges: (a) a current surcharge on hook-up fees in the amount of \$100; (b) a current surcharge on hook-up fees in the amount of \$500; and (c) the remaining balance from the discontinued temporary surcharge, last authorized in Case. No. EAG-W-09-01, Order No. 30936.

As of July 12, 2018, the total balance in the three accounts was \$365,580. Any additional surcharge amounts collected between July 12, 2018, and the time that the current surcharges are discontinued will also be used for the benefit of customers.

The surcharge balances are to be used by the Company as a line-of-credit. The Company may use the funds but the funds must be repaid. The funds from the surcharges are customer money, and this arrangement assures that the customers will receive the benefit from the surcharge funds. Additionally, the Company will deposit \$45,288 of overearnings annually into the surcharge line-of-credit account beginning with the year 2016. This provides an additional \$135,864 (\$45,288 for the years 2016, 2017, and 2018). Therefore, the total in the line-of-credit account of \$501,444 should be available for the Company to use for future plant investments for the benefit of customers.


### ***Miscellaneous***

The parties have agreed that the Company will provide Staff with quarterly reports of costs and expenses, and that Staff will conduct routine audits to ensure proper booking of expenditures. Additionally, the Company and Staff will work together to provide necessary updates to the Company's tariff language.

### **STAFF RECOMMENDATIONS**

The proposed Settlement represents a fair resolution of all issues identified by Staff during audit. The Settlement is just, fair, and reasonable and in the public interest. Accordingly, Staff recommends its approval.

Respectfully submitted this 16 day of January 2019.



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Edith Pacillo  
Deputy Attorney General

Technical Staff: Kathy Stockton  
Michael Morrison  
Chris Hecht

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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 16<sup>TH</sup> DAY OF JANUARY 2019, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. EAG-W-15-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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SECRETARY