

MICHAEL DUVAL  
DEPUTY ATTORNEY GENERAL  
IDAHO PUBLIC UTILITIES COMMISSION  
PO BOX 83720  
BOISE, IDAHO 83720-0074  
(208) 334-0320  
IDAHO BAR NO. 11714

Street Address for Express Mail:  
11331 W CHINDEN BLVD, BLDG 8, SUITE 201-A  
BOISE, ID 83714

Attorney for the Commission Staff

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF KOOTENAI HEIGHTS )**  
**WATER SYSEMS' APPLICATION FOR )** **CASE NO. KHW-W-23-01**  
**AUTHORITY TO INCREASE ITS RATES )**  
**AND CHARGES FOR WATER SERVICE IN )**  
**THE STATE OF IDAHO )** **COMMENTS OF THE**  
**)** **COMMISSION STAFF**  
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**COMMISSION STAFF (“STAFF”) OF** the Idaho Public Utilities Commission, by and through its Attorney of record, Michael Duval, Deputy Attorney General, submits the following comments.

**BACKGROUND**

On March 28, 2023, Kootenai Heights Water System, Inc. (“Company”) applied for authorization to increase its rates and charges for water service. The Company requested a May 1, 2023, effective date. This was suspended for 30 days plus five months per Order No. 35741.

The Company is a Commission-regulated water corporation serving 11 residential customers in and around Kootenai in Bonner County, Idaho.

The Company requested “a general 49.74% increase in water rates” by increasing the “residential flat rate from \$38.50 per month to \$57.65 per month.” Application at 1.

The Company argued the rate increase “is justified to cover expenses, such as, power, water testing, maintenance, and other expenses to maintain and operate the water system, and to continue to provide safe and reliable water.” *Id.* The Company stated it has not increased its rates since 2007.

The Company’s Application included a Rate Case spreadsheet with Exhibits 1-4.

## **STAFF ANALYSIS**

Staff reviewed the Application, exhibits, and additional information provided by the Company. Based on its review, Staff recommends a total revenue requirement of \$7,600, which is an increase of \$2,442 or 47.35% in the Company’s annual revenue. This revenue requirement is based on an 11% Return on Equity (“ROE”) applied to net rate base of \$851.

### **System Description**

The Kootenai Heights Water System serves 11 customers in the Kootenai Heights Subdivision located in the City of Kootenai, Idaho. The system includes an 8-inch well equipped with a five-horsepower submersible pump, three pressure tanks, and 2-inch PVC distribution lines. The most recent Sanitary Survey found the system to have no significant deficiencies and found the system to be in compliance with the Idaho Rules for Public Drinking Water Systems.

### **Revenue Requirement**

Staff recommends a total annual revenue requirement of \$7,600, which is a 47.35% increase in billed revenue, and a total expense allowance of \$7,506. The Company’s test year revenue consists of unmetered residential revenue billed at a monthly flat rate for all customers. Staff does not propose any adjustments to the Company’s test year revenues (Attachment 2).

### **Operating Expenses**

The Company’s operating expenses consist of three accounts: Contract Services Professional, Purchased Power, and Miscellaneous Expenses. Staff reviewed all three accounts within the 2022 test year and believes the expenses incurred were necessary for providing service to customers.

### Contract Services Professional

The Company contracts with Water Systems MGT, INC. (“The Management Company”) to manage its water system. The Management Company bills Kootenai Heights on a quarterly basis for various Operation & Maintenance (“O&M”) expenses incurred during the quarter. The Company recorded \$5,819 in total Contract Services Professional Expenses for the test year 2022 (Attachment 1, Line No. 11). Staff reviewed each quarterly invoice from the Management Company which includes system operator compensation, property taxes, water testing, repair expenses, and other O&M expenses. Staff believes the Contract Services Professional Expenses were prudently incurred and necessary for providing service to customers. Other O&M Expenses included in the Company’s Application include Purchase Power Expenses of \$788 and Miscellaneous Expenses of \$200 (*See Attachment 1*).

### Purchase Power

The Company receives monthly invoices from Avista Utilities for electric service. Staff reviewed all electric utility invoices for 2020, 2021, and 2022 and confirmed that all Purchased Power expenses for test year 2022 were accurate.

### Miscellaneous Expenses

The Company uses the Miscellaneous expense account to book various O&M expenses which consists primarily of office supplies. Staff reviewed the account and associated invoices, and believes the expenses were appropriate and should be recoverable.

## **RATE BASE**

Since its last general rate case in 2007, the Company has not included any new Plant in Service to its Rate Base. In the Application, the Company included Net Plant in Service of \$26,327 and Working Capital of \$851 (*See Attachment 1*).

### Net Plant in Service

The Company’s Net Plant in Service balance includes an offset for Contributions in Aid of Construction (“CIAC”) received from customer hookup fees. Staff reviewed the Company’s

Net Plant in Service balance, hookup fees, and CIAC balance, and believes each was calculated correctly.

### Working Capital

The Company used the 1/8 method to calculate working capital. This method is commonly used by other small water utilities in Idaho. *See* Order No. 35692. Staff reviewed the Company's working capital calculation and confirmed that it was accurately calculated.

### **RATE OF RETURN**

The Company is entitled to earn a reasonable return on its investments in rate base. If a utility has no debt, then the rate of return is determined based on capital attributable to its equity. The Company is requesting a 12% ROE and has no outstanding debt. In Order No. 33658 and Order No. 33910, similar water utilities were authorized an 11% ROE. Staff proposes a ROE of 11% and believes it is consistent with other small water utilities.

### **RATE DESIGN**

In its Application, the Company proposed an unmetered monthly flat rate of \$57.65 for its eleven residential customers. The monthly rate is calculated by dividing the revenue requirement by the total number of customers to determine an annual amount necessary to charge each customer. That result is then divided by 12 to achieve a monthly rate. (Company Exhibit 4 and Rates). Staff calculates a monthly flat rate of \$57.58 to achieve its proposed annual revenue requirement of \$7,600 (*See* Attachment 4).

### **CUSTOMER RELATIONS**

#### Customer notice and press release

The Company's Application did not include a copy of the customer notice or press release. Staff contacted the Company and a copy of the customer notice and verification of publication of the press release were sent June 6, 2023. The customer notice was dated April 18, 2023, and the press release was published April 18, 2023, in the Bonner County Daily Bee. The customer notice and the press release satisfy Rule 125 of the Commission's Rules of Procedure *See* IDAPA 31.01.01.

### Customer workshop

The Commission provided public notification for a customer workshop through an August 4, 2023, news release. A virtual public workshop was held for customers on Tuesday, August 15, 2023, beginning at 6:30 pm. No customers attended.

### Customer comments

As of September 13, 2023, there have been no customer complaints. There is one comment in which the customer asked for justification regarding the increase and complained it was too large an increase. The customer also questioned the Commission's authority to review and approve an increase.

### Company Tariff

The current Company tariff dates to the last rate case in 2007. Rate Schedule No. 1 states a monthly charge of \$38.50 to include the first 10,000 gallons, and a \$3.10 charge for each 1,000 gallons over the first 10,000 gallons. Rate Schedule No. 2 lists a late payment charge of \$10.00.

Staff recommends that Rate Schedule No. 1 be revised to reflect the new flat rate monthly charge. Staff also recommend that Rate Schedule No. 2 be revised to reflect a Late Payment Charge of one percent of the unpaid balance at the time of the new billing statement, to better reflect the charge previously approved by the Commission for other utilities.

The Commission has released a Model Tariff for small water companies and Staff recommends that the Company update its rate schedules and its general rules and regulations to reflect the appropriate rates. Staff is willing to assist the Company in updating and submitting the new tariff.

### **STAFF RECOMMENDATIONS**

Based on its review of the Company's Application and response to discovery, Staff recommends an annual revenue requirement of \$7,600, consisting of a rate base of \$851, and a ROE of 11%. Additionally, Staff recommends a monthly flat rate of \$57.58 for all residential customers.

Respectfully submitted this 20th day of September 2023.



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Michael Duval  
Deputy Attorney General

Technical Staff: Ty Johnson  
Travis Culbertson  
Chris Hecht  
Michael Eldred

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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 20<sup>th</sup> DAY OF SEPTEMBER 2023, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF TO KOOTENAI HEIGHTS WATER SYSTEM**, IN CASE NO. KHW-W-23-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

BOB HANSEN  
KOOTENAI HEIGHTS WATER SYSTEM  
67 WILD HOURSE TRAIL  
SANDPOINT ID 83864  
E-MAIL: [wsmibob@aol.com](mailto:wsmibob@aol.com)

JEFF COWLEY  
E-MAIL:  
[jeff.cowley@usa.com](mailto:jeff.cowley@usa.com)



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SECRETARY