

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF MORNING VIEW) CASE NO. MNV-W-19-01
WATER COMPANY'S APPLICATION FOR)
AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR WATER SERVICE IN) ORDER NO. 34542
IDAHO)

On June 5, 2019, Morning View Water Company (“Morning View” or “Company”) applied to the Commission for authority to increase its rates and charges. Morning View provides water service to 116 residential customers in and around Rigby, Idaho in Jefferson County. The Company last increased its basic rates and charges in January 2017. *See* Order Nos. 33658 and 33698.

We have thoroughly reviewed the record, including written comments and analysis from the Company, Commission Staff, and the Company’s customers, and testimony from customers given at a January 8, 2020 public hearing. Based on that review, we find it fair, just, and reasonable to approve a new, total revenue requirement for the Company of \$96,472. The Company’s new rates and charges will take effect on the date the Commission approves the Company’s filed tariffs.

PROCEDURAL BACKGROUND

On June 5, 2019, Morning View applied to increase its rates and charges for water service. The Company proposed a June 30, 2019 effective date.

On June 27, 2019, the Commission issued a Notice of Application and set an intervention deadline. The Commission directed Staff to audit the Company and access all documents needed to determine the Company’s revenue requirement. The Commission also directed Staff to help the Company prepare a customer notice that complied with the Commission’s rules. Last, the Commission suspended the Company’s proposed effective date for the new rates for five months and 30 days, under *Idaho Code* § 61-622(4). Order No. 34361.

At a November 12, 2019 Commission Decision Meeting, Staff informed the Commission that Staff had obtained enough information to recommend a revenue requirement for Morning View.

On November 19, 2019, the Commission issued a Notice of Modified Procedure, setting a December 18, 2019 comment deadline and a January 3, 2020 reply comment deadline.

The Commission suspended the Company's proposed effective date for new rates for an additional 60 days, under *Idaho Code* § 61-622(4). The Commission also issued notice that Staff would hold a public informational customer workshop on January 8, 2020 at 5:30 PM in Rigby, Idaho, and that the Commission would hold a public customer hearing on the same day at 7:00 PM in the same location as the workshop. The Commission noted that it would accept customer comments through January 8, 2020. Order No. 34491.

Staff filed comments, proposing a revenue requirement and rate structure for Morning View that would increase customer rates by approximately 10%. The Company filed reply comments. Multiple customer comments were received between December 27, 2019 and January 8, 2020. Three customers testified at the January 8, 2020 customer hearing.

THE APPLICATION

Morning View's one-page Application stated the Company needs a rate increase for three reasons. First, the Company noted water usage is down because many users are choosing not to water their lawns during the summer. Second, the Company claimed its previous rate case failed to provide the Company with an adequate rate of return. *See* Case No. MNV-W-16-01. The Company stated it has "been operating at a negative every year since" the rate case, and the Company's owners have had to "subsidize the entire water system with personal retirement funds due to the failure of the previous rate case." Application at 1. Third, the Company stated it is facing unanticipated expenses, including water testing, a pipeline repair, and other "expenses not considered in the previous rate case." *Id.*

STAFF COMMENTS

As directed by the Commission, Staff worked with Morning View to determine the Company's revenue requirement. Staff Comments contain the only detailed analysis of the Company's revenue requirement.

Staff stated it used information from Morning View's 2018 annual report to create a historical test year ending December 31, 2018. Staff then adjusted the test year after updating revenues and costs. Staff recommended a total revenue requirement of \$96,472: a 10.25% increase from the revenue collected in the test year.

Staff noted that the Company has failed to collect its Commission-approved revenue requirement every year since its last rate case. In that case, Case No. MNV-W-16-01, the

Commission approved a revenue requirement of \$93,727. Morning View reported revenues of \$85,972 in 2017 and \$86,040 in 2018. *See* Order No. 33658.

The table below summarizes the Company’s revenue requirement as calculated with the 2018 test year derived from Morning View’s 2018 annual report, and Morning View’s revenue requirement as calculated by Staff:

| | Annual Report | Staff Recommendation |
|--|----------------------|-----------------------------|
| Operating Expenses | \$68,292 | \$58,349 |
| Amortization and Other Expenses | \$718 | \$3,537 |
| Taxes | \$7,746 | \$8,073 |
| Depreciation | \$22,473 | \$20,992 |
| Return on Rate Base | \$2,500 | \$5,521 |
| Revenue Requirement | \$101,729 | \$96,472 |

Revenue Requirement

1. Expenses

Staff recommended adjusting the labor expenses established in the Company’s previous rate case, Case No. MNV-W-16-01, to match those reported in the Standard Occupational Classification codes from the U.S. Bureau of Labor Statistics, which would lead to a total salary expense of \$22,600. This is a \$5,240 decrease in salaries from the amount reported for compensation in the Company’s annual report, but still is a wage increase from the 2016 case.

Staff noted the Company’s annual report omitted transportation expenses. Staff pointed out that the Company “regularly drives the length of the system to conduct meter reads and check for any leaks or other issues.” Staff Comments at 5. Staff recommended a transportation expense of \$897.

The Company reported a \$900 office rental expense, as authorized by Order No. 33698. The Company operates out of an office building it rents from Landco Building Co. (“Landco”), which is owned by the same person who owns Morning View. Staff recommended a \$50 increase in office rental expense because of the building’s assessed value. Staff noted that, while \$950 is less than market rates for a comparable small office space, the Company’s expenses for electricity, natural gas, water, garbage removal, and lawn maintenance are calculated as separate expenses as

part of the Company's revenue requirement. Staff explained that these miscellaneous expenses would ordinarily be included in market rates to rent a commercial space.

The Company reported \$720 in water-testing expenses. Staff recommended moving \$25 of this expense to rate base because it was for repairs that should have been capitalized. Staff uses a nine-year average of required water-testing costs to assure all required costs are covered and included in rates over this cycle period. This resulted in water-testing expenses for the Company totaling \$1,840, so Staff recommended a \$1,145 increase to the Company's water-testing expense.

Regarding deferred expenses, the Commission authorized the Company in Case No. MNV-W-16-02, Order No. 33826 to defer \$4,987 in expenses related to a well failure in 2016. Staff recommended the Company be allowed to recover \$1,663 annually for three years as an amortization expense. Additionally, Staff estimated the Company incurred \$4,000 in expenses to file this rate case. Staff recommended the Company be allowed to recover the rate case expense with an annual amortization of \$1,334 for three years.

Staff recommended a handful of miscellaneous expense adjustments. These included: (1) removing \$350 in professional contract services and payroll tax expenses because these expenses related to Morning View's tax payments owed for previous years; (2) removing a \$179 "South Rigby Irrigation" expense because this expense actually was incurred by Landco; (3) decreasing the Company's annual property tax expense from \$3,348 to \$3,277; and (4) adding \$332 in legal expenses related to a water rights mitigation issue that was not included in the Company's annual report.

2. Rate Base

The Company reported Plant in Service of \$630,322 and \$119,750 of accumulated depreciation in its annual report. However, Staff noted these numbers have not been updated to reflect adjustments made in the Company's last rate case, MNV-W-16-01. Staff recommended adjusting the Plant in Service to amounts approved in Order No. 33658, and adding accumulated depreciation for 2017 through 2018. Staff also recommended including \$8,571 in expenses incurred by the Company in 2018 to repair its system. Staff argued these repair expenses should be included in Plant in Service because the repairs improved the Company's system.

Staff recommended using the 1/8th rule for determining working capital, as is commonly done with small water utilities. Staff noted this would result in a working capital of \$7,293.

Staff recommended a total rate base of \$433,639.

3. Rate of Return

Staff noted the Company’s “only long-term debt is an Idaho Drinking Water Revolving Loan, offered by the Idaho Department of Environmental Quality [(“DEQ”)], that has a \$510,614 balance with a 1.25% interest rate.” Staff Comments at 8. Additionally, there is \$1,222 in owner’s equity, resulting in a capital structure of 99.76% debt and 0.24% common equity.

Staff recommended an 11% Return on Equity, which is identical to the Return on Equity approved in the last case. The resulting Overall Rate of Return would be 1.27%.

Rate Design

Staff recommended the following rate design for Morning View:

| Lot Size | Proposed Minimum Charge | Size of 1st Tier (in 1,000 gallons) | 1st Tier Charge (\$/1,000 gallons) | 2nd Tier Charge (\$/1,000 gallons) |
|----------|-------------------------|-------------------------------------|------------------------------------|------------------------------------|
| 1/4 Acre | \$55.00 | 10 | \$0.17 | \$0.53 |
| 1/2 Acre | \$65.00 | 40 | \$0.17 | \$0.53 |
| 1 Acre | \$70.50 | 45 | \$0.17 | \$0.53 |

Staff noted this proposed rate design maintains the two-part pricing structure approved in the previous rate case, but “each price component is increased from its current level by approximately 10.2% to allow the Company an opportunity to recover Staff’s proposed revenue requirement target of \$96,472.” Staff Comments at 10. The effect of this increase is summarized below:

| Lot Size | Gallons per Month | Percentile | Notes | Current Bill | Staff Proposed Bill | Increase in \$ | Increase in % |
|----------|-------------------|------------------|---------|--------------|---------------------|----------------|---------------|
| 1/4 Acre | 5,000 | 48 th | | \$50.75 | \$55.85 | \$5.10 | 10.0% |
| 1/4 Acre | 8,490 | 70 th | Average | \$51.27 | \$56.44 | \$5.17 | 10.1% |
| 1/4 Acre | 50,000 | 98 th | | \$71.10 | \$77.90 | \$6.80 | 9.6% |
| 1/2 Acre | 5,000 | 45 th | | \$59.75 | \$65.85 | \$6.10 | 10.2% |
| 1/2 Acre | 18,800 | 72 nd | Average | \$61.82 | \$68.20 | \$6.38 | 10.3% |
| 1/2 Acre | 50,000 | 87 th | | \$69.90 | \$77.10 | \$7.20 | 10.3% |
| 1 Acre | 5,000 | 26 th | | \$64.75 | \$71.35 | \$6.60 | 10.2% |
| 1 Acre | 33,410 | 70 th | Average | \$69.01 | \$76.18 | \$7.17 | 10.4% |
| 1 Acre | 50,000 | 76 th | | \$73.20 | \$80.80 | \$7.60 | 10.4% |

Staff recommended the Commission approve Staff's recommended revenue requirement and rate design for Morning View. Staff also recommended the Commission order the Company to submit a signed copy of its updated tariff within 15 days of the effective date of the Commission's final order.

THE COMPANY'S REPLY COMMENTS

In its reply comments, Morning View disagreed with Staff's method for determining the annual rent for the Company's office. The Company stated that "[S]taff is recommending compensating Landco for half of the building depreciation in lieu of rent. That is not how renting office space works." Company Reply Comments at 1. The Company noted that, because of the increasing value of the property on which the Company's office is located, the property might eventually be sold. The Company pointed out that if this happens, the Company "would not be able to obtain office rental space at market for \$950 annually." *Id.* at 2.

Additionally, the Company reported that it has had two additional expenses since it last communicated with Staff. The first were electrical repairs "in order to properly heat the old well house," totaling \$192. *Id.* at 1. The second expense has not yet been incurred by the Company. The Company stated the old well again failed, and repairs are expected to cost "around \$10,000." *Id.* The Company requested these expenses be included in the rate case.

PUBLIC COMMENTS AND TESTIMONY

Customers universally opposed increasing Morning View's rates. Customers outlined the negative impacts of the rate increase, expressed dissatisfaction with the Company's decisions

and management, and provided a handful of recommendations to address the Company's revenue shortfall.

Customers noted that water usage has dramatically declined since Morning View's 2016 rate case. Customers stated water usage decreased because the 2016 rate case increased rates. *See* Order No. 33658. Customers noted if rates increase again, customers will likely use even less water. Customers identified several negative results from further conservation of water. First, customers—who have already reduced lawn watering—will be forced to water even less, causing reduced property values and increased fire risk. Second, decreased water usage will mean Morning View will again be unable to meet its revenue requirement, requiring it to return to the Commission for yet another rate increase. Besides the negative impacts of decreased water usage, customers noted that increased rates disproportionately impact people on fixed incomes, such as retired people. Customers stated the rate increase would also penalize customers for conserving water.

Customers expressed dissatisfaction with Morning View's management. Customers claimed they pay significantly higher rates than customers of municipal water systems and Commission-regulated water systems in the area. One customer disagreed with the Company's assertion that water-testing expenses are a contributing cause of this rate case, claiming DEQ has a clear schedule for water testing that water systems are supposed to follow and can easily budget for. Customers also claimed the Company has consistently violated DEQ reporting requirements. Finally, customers asserted the Company has never met its revenue requirement, and never will meet it because the Company is poorly managed.

Customers made several recommendations. One suggestion was that the Commission *decrease* rates, which customers asserted would spur water consumption and increase the Company's revenue. Customers also suggested the Commission could decrease any regulatory charges it may impose on Morning View. Finally, customers suggested that the Company should carry insurance for water system failures so the cost of repairing system failures would be borne by the insurer and not customers.

COMMISSION FINDINGS AND DECISION

The Commission has jurisdiction and authority over Morning View and the issues raised in this case, pursuant to Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000, *et seq.* Based on our review of the record, we find the Company's current rates are insufficient to enable it to satisfy its annual revenue requirement, and that it is

fair, just, and reasonable for the Company to change its rates and charges in accordance with the recommendations in Staff's written comments.

We acknowledge the concerns of customers expressed in written comments and public testimony. Morning View customers' rates significantly increased after the Company's 2016 general rate case. To now experience a 10% rate increase only three years later is understandably frustrating. Unfortunately, the Commission has limited options when setting rates for a small water company. By statute, the Commission must establish rates that are fair, just, and reasonable—both for the utility and for its customers. The Commission must ensure customers are receiving safe and reliable service at rates that allow the utility to remain viable. At present, the Company receives insufficient revenue to cover its reasonably incurred (audited) expenses.

The Commission acknowledges customer recommendations that the Company carry insurance to help cover the cost of system repairs. We have previously encouraged Morning View “to discuss insurance options with a licensed insurance agent and with other like-sized small water utilities in Idaho who may have similar business needs.” *See* Order No. 33826. However, it is up to the Company's management and business advisors to determine whether and how the Company should procure insurance. If the Company determines it is prudent to carry insurance for system repairs and acquires insurance, the cost of insurance would be included in rates and any savings resulting from an insurance payout would be passed onto customers in rates.

Several customers suggested the Commission reduce any regulatory fees it might assess on Morning View to reduce the Company's expenses. The Commission assesses an annual regulatory fee on each public utility as required by *Idaho Code* § 61-1001, *et seq.* The annual regulatory fee is three-tenths of 1% of the gross operating revenues derived from the intrastate utility business of the public utility. *Idaho Code* § 61-1004(2). In 2018, Morning View's annual regulatory fee was \$186.67. This is the only fee Morning View pays to the Commission, and the Commission is required by Idaho statute to collect it.

We approve Staff's calculation of the Company's annual rent expense. While an annual rent expense of \$950 might seem low at first glance, the company that owns the office is owned by the same person who owns Morning View. As such, it is an affiliated-party transaction where the amount to be included in rates is the lower of cost or market. Additionally, the Company's revenue requirement includes expenses such as electricity, natural gas, water, garbage removal, and lawn service—expenses that would likely be included in renting office space in an arms-length

transaction. When these expenses are added in, the Company receives a rent expense of \$2,221 annually. Staff calculated the average market rent in the Rigby/Idaho Falls area to be \$5,304. *See* Staff Comments, Attachment E. While \$2,221 is less than the amount for which the owner of Morning View and Landco might be able to rent the space to a third party, it is the lower of cost or market. Also, significant logistical and financial advantages can come from renting from oneself. Therefore, we find Staff's calculation of Morning View's rent expense to be reasonable.

In its reply comments, the Company informed the Commission it has incurred unanticipated expenses since the beginning of this case. Morning View stated it has incurred \$192 in electrical repairs for its old pump house, and will incur approximately \$10,000 to fix the old well. Both expenditures should be capitalized when paid. They arose after this rate case began, and Morning View states it has not yet incurred the well repair expense. Therefore, consistent with past practice, these expenditures should be included in rate base and in the Company's next rate case with the Commission.

ORDER

IT IS HEREBY ORDERED that the Commission in Case No. MNV-W-19-01 does hereby approve as just and reasonable a total revenue requirement of \$96,472, the detailed changes in revenue requirement, rate base, and rate design, as described in this Order.

IT IS FURTHER ORDERED that the Company submit tariffs in compliance with the rates and charges authorized in this Order no later than 14 days from the service date of this Order. The rates and charges authorized by this Order shall be effective for services rendered on and after the Commission's approval of the Company's filed tariffs.

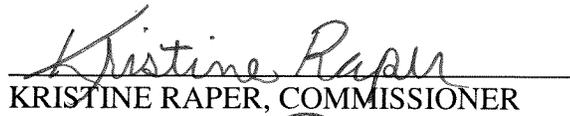
THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

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DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this *5th*
day of February 2020.



PAUL KJELLANDER, PRESIDENT

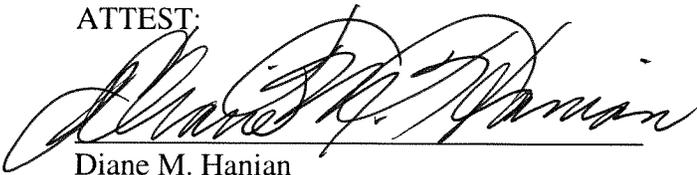


KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Diane M. Hanian
Commission Secretary

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