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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**APPLICATION OF CDS STONERIDGE)
UTILITIES, LLC TO CHANGE RATES FOR) CASE NO. SWS-W-20-01
NON-REFUNDABLE HOOK-UP FEE FOR NEW)
WATER CONNECTIONS) COMMENTS OF THE
) COMMISSION STAFF
)
_____)**

The Staff of the Idaho Public Utilities Commission (“Staff”) submits the following reply comments.

BACKGROUND

On June 4, 2020, CDS Stoneridge Utilities, LLC (“Company”) applied to increase the fee for a new customer to physically connect to the Company’s water system from \$1,200 to \$9,735. *See Application* at 1. The Company requested an effective date of July 27, 2020. On June 25, 2020, the Commission ordered the Application to be processed by Modified Procedure and suspended the Company’s proposed effective date to January 26, 2021. *See Order No. 34702.*

On November 30, 2020, Staff filed a Motion to Extend Suspension Period (“Motion”) for an additional 60 days for good cause pursuant to *Idaho Code* § 61-622(4). The Company did not file a written response.

The Commission granted Staff’s Motion and extended the suspension period (the proposed effective date) in this case until March 29, 2021.

STAFF ANALYSIS

Staff reviewed the Application, the Company's responses to Productions Requests, and other available documents and generally supports the Company's Application to increase the fee for a new customer to physically connect to the Company's water system ("Hook-up Fee") but not to the requested level. Staff recommends that the Non-Recurring Charges section of the Company's Tariff be modified to allow for the itemized Hook-up Fees based on the work required to connect a customer to the Company's water system. CDS Stoneridge Utilities, LLC Tariff No. 2 (effective November 1, 2014). Staff will also provide direction on the accounting for Hook-up Fees and connection costs, and how the Company can potentially recover any costs it incurs beyond the amount received from the customer Hook-up Fee.

RECOMMENDED TARIFF CHANGES

Staff's Proposed Hook-up Fees

The current \$1,200 Hook-up Fee included in the Non-Recurring Charges section of the Company's Tariff does not cover the costs incurred by the Company when it connects a new customer to its system. The Company experiences a wide variety of circumstances that affect the cost to hook-up new customers in different parts of the Company's service territory. In some cases, the service line and other components have already been installed, and the Company need only install a meter and perform an inspection. In other cases, the Company must excavate, tap the main, run a service line across the road, and install a meter and pit setter. To better reflect the variety of circumstances that the Company encounters across its service territory, Staff proposes that the following schedule be adopted in lieu of the current \$1,200 Hook-up Fee:

For applicants requesting a 3/4" or 1" connection:

Complete Installation ¹	\$3,500
Tap Main and Install service line to curb stop only	\$1,512
Adder for excavation or horizontal boring across a road	\$1,800
Pit Setter and meter only	\$2,296
Install meter and turn-on water only	\$ 533

¹ A "Complete Installation" is defined on page 4 of Staff's Comments.

For applicants requesting a connection larger than 1": Customer pays actual construction costs.

Staff's proposed Hook-up Fees are based on costs provided by the Company in its responses to Staff's Production Request Nos. 4, 5, and 6. In its estimates, Staff included only external costs and did not include internal administrative, labor, or overhead costs. When the Company provided two or more different costs for the same materials or labor, Staff used the lower cost in its estimate.

Staff requested detail for the internal costs the Company incurs connecting a customer. The Company stated that it pays all employees on a salary and therefore could not break out the cost for their work to connect new customers. Staff recommends that internal costs continue to be included in base rates and not included in the Hook-up Fee.

Staff compared material and labor costs with actual invoices provided by the Company in Case No. SWS-W-20-02 and found that some of the work and materials described by the Company were not routinely performed when installing a new service. For example, Staff found no invoices from contractors for traffic control services, even though bids provided by the Company included traffic control costs. Staff excluded such costs from its estimates and recommendations.

Using information obtained from Company supplied bids, Staff estimates the cost of a complete installation to be \$3,808; however, invoices provided by the Company in Case No. SWS-W-20-02 indicate that the Company is only paying \$3,500 for this same work. Staff recommends the Commission approve this latter amount for a complete installation Hook-up Fee.

Staff believes that most residential lots in the Company's service area only require a 3/4-inch meter. In conversations between the Company and Staff, the Company stated that its materials costs for a 1-inch meter installation are less than the cost of obtaining materials for a 3/4-inch installation. Staff notes that this is not generally true across Idaho, but that the difference in costs of installing either a 1-inch or a 3/4-inch meter are relatively small. Staff used the 1-inch meter materials costs provided by the Company in its estimates. Provided that the cost of installing a 1-inch meter is less than the cost of installing a 3/4-inch meter, Staff believes that it is prudent for the Company to install the larger meter. The Company's current Tariff

allows the Company to charge a customer with a “0.75” inch meter a Minimum Monthly Customer Charge of \$24.00 and \$42.67 for a customer with a “1.00” inch meter. Company Tariff No. 2, page 1. Staff believes that a customer requesting a ¾-inch meter should only be charged the minimum monthly customer charge for a ¾-inch meter regardless of whether a 1-inch meter was installed or not. The Company should look at the need to have both the 0.75 inch and 1.00 inch meter rates in it’s next general rate case.

Other Recommended Changes to the Tariff

New definitions

For clarity, Staff recommends that the following new definitions be included in Section 2 of the Company’s Tariff:

Applicant: A person or entity requesting new water service from the Company.

Complete Installation: Includes the costs of tapping the main and installing a service line to the curb stop and installing a complete Pit Setter and meter.

Customer: A person or entity who is receiving water service from the Company.

Pit Setter and meter: Includes the materials and costs necessary to install the Pit Setter (with enclosure) and meter and connect it to the Corp Stop.

Tap Main and Install service line to Curb Stop: Includes connection to the main, installing up to 50 feet of line between the Corp Stop, and the Curb Stop.

Corp Stop: A valve located on the service line and adjacent to the Company’s main.

Curb Stop: A valve, located on the service line near the edge of the customer’s property. The Curb Stop is used to turn-on/shut-off water to the customer. It is often located within the Pit Setter enclosure.

Extraordinary Circumstances: Conditions not typically encountered when performing a hook-up. This may include the installation of service lines longer than 50 feet, excavation through rock outcrops, or excavation in areas with high water tables requiring additional equipment for water removal.

Modifications to existing definitions

Staff also proposes that the following definitions be updated, as shown in redline format in these Comments, to reflect Staff's recommendations:

2.4.1 Connection or Hook-up Fee: One time connection to the utility's ~~supply line~~ distribution system. ~~consisting of a meter set with a water meter and isolation valve on the customer's side of the meter. Said meter and valve and the operation of such are the responsibility of the utility company.~~ The Company assumes ownership and responsibility for maintenance of the meter and all pipes and equipment between the Company's main and the meter at the time of the customer's connection to the Company's water system.

2.6 Customer: ~~A person, business, or government agency responsible for paying bills and complying with the rules and regulations of the Company.~~ A person or entity who is receiving water service from the Company.

Staff also recommends that the term "out-of-the-ordinary" used in Section 9.4 of the Company's Tariff be replaced with the word "extraordinary".

Accounting Treatment and Recovery of Excess Costs

Staff discovered through its investigation that the Company does not properly record Hook-up Fees collected and additional costs incurred for connecting customers to its water system. Prudent costs incurred by the Company should be rate based and are recoverable from all customers when the Company files its next rate case.

All Hook-up Fees collected by the Company should be posted under Account No. 271 Contributions in Aid of Construction ("CIAC") (See page 8 in the Annual Report). The balance of this account is used to reduce Plant in Service and decreases the Company's rate base. The CIAC balance is amortized at the same rate as the assets they were used to purchase. The annual amortization will be posted as a reduction to Account No. 403 Depreciation Expense (See page 4 in the Annual Report). The accumulated amortization should be recorded under Account No. 272 Accum. Amort. of Contrib. in Aid of Const (See page 8 in the Annual Report).

All costs incurred to connect a customer to the water system, regardless of who pays for those costs, should be posted in the proper Plant in Service account. For service pipes leading from the main to the meter pit, those costs should be recorded in Account 101 Sub Account No. 333 Services, while the meter pit and meter should be recorded in Account 101 Sub Account No. 334 Meters and Meter Installations (See page 5 in the Annual Report). These balances will be depreciated at depreciation rates appropriate for the corresponding assets. Based on the National Association of Regulatory Utilities Commissioners Depreciation Practices for Small Water Utilities a default rate for each account is 2.5%, which provides for a 40-year life. However, depending on differing situations those rates could be different. Annual depreciation expense should be recorded in Account No. 403 Depreciation Expense (See page 4 in the Annual Report), and the accumulated depreciation should be posted to Account No. 108.1 Sub Account 333 Services and Sub Account No. 334 Meters and Meter Installations (See page 6 in the Annual Report).

When the Company files its next general rate case, it will be able to recover depreciation expense in its revenue requirement. The Company will also be authorized to earn a reasonable rate of return on its net rate base. Staff is available to work with the Company to insure proper recording of rate base and depreciation expense.

CUSTOMER NOTICE AND PRESS RELEASE

Under the Commission Rules of Procedure Rule 134.01 Tariff Advices Authorized - Public utilities may file tariffs adding new or modifying existing services, providing for new or modified rules, or otherwise making minor changes to existing schedules by tariff advice. The Commission accepted Staff's proposal to open a case and treat this filing as an Application, Order No. 34702.

Staff reviewed the notice and press release requirements and believe the utility is not required to issue a customer notice or press release. The Commission did not issue a press release in this case.

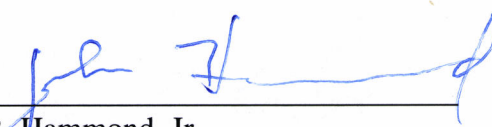
As of January 25, 2021, there were no customer comments received on the case, although there were two customer comments sent as part of the follow-up case, Case No. SWS-W-20-02, which is still pending.

STAFF RECOMMENDATION

After review of the Company's Application and additional information provided through discovery, Staff recommends the Commission:

- Approve the changes to the Tariff as stated above, including the new Hook-up Fees, new and revised definitions, and changes to sections 2.4.1, 2.6 and 9.4; and
- Remind the Company that failure to comply with the Tariff could expose the Company to penalties under *Idaho Code* § 61-706.

Respectfully submitted this 26th day of January 2021.



John R. Hammond, Jr.
Deputy Attorney General

Technical Staff: Joseph Terry
Chris Hecht
Michael Morrison

i:umisc/comments/sws20.1jhjtcwhmm comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 26th DAY OF JANUARY 2021, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. SWS-W-20-01, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

STEVEN DURBIN
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SECRETARY

CERTIFICATE OF SERVICE