

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF CDS STONERIDGE) CASE NO. SWS-W-24-01
UTILITIES, LLC’S APPLICATION FOR)
AUTHORITY TO INCREASE ITS RATES) ORDER NO. 36407
AND CHARGES FOR WATER SERVICE IN)
THE STATE OF IDAHO)
)

On February 28, 2024, CDS Stoneridge Utilities, LLC (“Company” or “Stoneridge”) applied for authorization to increase its rates and charges for water service (“Application”). The Company made a separate supplemental filing requesting an April 1, 2024, effective date.¹

On March 13, 2024, the Commission issued a Notice of Application, Notice of Intervention Deadline, and Notice of Suspension of Proposed Effective Date. Order No. 36116. The Stoneridge Property Owners Association, Inc. (“SPOA”), the Stoneridge Recreational Club Condominium Owners Association, Inc. (“SRCCOA”), and an individual, Randolph Garrison, *pro se*, petitioned to intervene (collectively the “Intervenors”). Order Nos. 36144 and 36163.

On May 28, 2024, the Commission issued a Notice of Modified Procedure establishing public comment and Company reply deadlines and Notice of Public Workshops. Order No. 36192. The Commission Staff (“Staff”) held two public workshops on June 4, 2024, in Blanchard, Idaho.

On July 2, 2024, the Commission issued an order suspending the case for sixty days, setting a new effective date of November 30, 2024, ordering the Company to retain counsel within 30 days, and vacating the comment deadlines established in Order No. 36192. Order No. 36247. Jason Piskel filed a Notice of Appearance on July 1, 2024, noting that he was retained to represent the Company before the Commission.

On September 13, 2024, the Commission issued an order establishing an October 1, 2024, Staff comment deadline, an October 16, 2024, Intervenor comment deadline, and an October 30, 2024, Company reply deadline. Order No. 36323.

On October 1, 2024, Staff filed comments recommending that the Commission approve a revenue requirement of \$292,795—a 27% increase in customers’ rates.² Staff proposed revenue

¹ In its Application the Company requested a July 1, 2024, effective date. *See* Application Attachment G.

² After Staff filed comments, an error was discovered in the model it used which when corrected reduced, Staff’s proposed revenue requirement by \$21,682 to \$271,113—effectively reducing Staff’s 27.1% proposed increase to 17.6%. This error and the efforts to correct it on the record are discussed in greater detail below.

requirement was determined by using a 10% return on equity (“ROE”) with a \$264,252 net rate base.

Two customer hearings were held in Blanchard, Idaho, on October 9 and 10, 2024.

On October 16, 2024, the Intervenors filed joint comments.

On October 30, 2024, the Company filed reply comments disagreeing with Staff’s overall recommendation. The Company argued if the Commission adopted Staff’s position it would be exceeding its authority. The Company alternatively recommended that the Commission approve a revenue requirement of \$477,193—a 124.4% increase.³ This was determined by using a 11% ROE with a \$282,549 net rate base. The Company discussed its debt to Esprit Enterprises, LLC, (“Esprit”) and noted that its last rate case was in 2004. The Company stated that over the years it had observed an inherent bias toward customers at its long-term viability. The Company discussed its previous and current deficits. The Company also argued that the Commission’s previous hookup fee case did not sufficiently cover the Company’s expenses and was lower than the amounts approved for neighboring systems that had better access to contractors. The Company argued that the Commission’s approach was shortsighted and would leave the Company deficient in revenue. The Company stated that Staff’s position did not outpace inflation when compared to the last rate case 17 years ago.

On November 6, 2024, Staff filed a motion requesting that the Commission accept the correction of a calculation error in the record and allow the Company time to comment on the calculation error. The Commission approved Staff’s request noting that the Company’s comments on the record needed to be tailored to the issue of the error in question. Order No. 36389.

On November 13, 2024, the Company filed comments discussing its position on the error corrected by Staff. The Company also stated that it had discovered another error in the data that the Company used as input into its calculations.

Having reviewed the record in this case, the Commission issues this Order authorizing the Company to increase its rates as discussed below.

³ By correcting the same error found in Staff’s model, the Company’s proposed revenue requirement would be reduced by \$26,646 to \$450,546—effectively reducing the Company’s proposed increase from 124.3% to 111.7%. This is discussed in greater detail, below.

BACKGROUND

The Company serves about 384 residential and commercial customers⁴ near Blanchard, Idaho, under Certificate of Public Convenience and Necessity No. 395. The Company provides water to homes, condominiums, RV spaces, and a golf course. The system features two wells with high-capacity pumps, three storage tanks holding 340,000 gallons, and automated controls. Infrastructure includes pipes, 31 fire hydrants, backflow prevention devices, and chlorination treatment. The Company offers ¾-inch meters to 6-inch meters with 93% of customers using ¾-inch meters. There is potential for 112 new connections on the system and the Company anticipates 50 additional hookups within five years.

THE APPLICATION

The Company represented that it had invested more than \$900,000 in the system since 2018. To recover its investment, the Company proposed to increase rates by an average of 261%—which represents an overall increase in the Company’s revenues of \$555,190. The increases would apply to residential customers in Stoneridge and Happy Valley Ranchos subdivision, commercial customers at SR Resort/Timeshare and MCV & Golf Course, Irrigation, and Golf Course Irrigation customers. *See* Application Attachment D.

The Company proposed to increase both monthly user fees and non-recurring fees. The proposed commodity charge would increase from \$0.79/1,000 gallons to \$2.94/1,000 gallons. *See* Application Attachments E and F.

The Company included financial statements and other documents relevant to its request. The Company did not include a redlined or clean copy of its proposed tariff. *See* Application Attachments P and Q. The Company indicated it was working with Staff on this and would file this when complete.

The Company included copies of its customer notification and publication notice with its Application. *See* Application Attachments E and F.

⁴ Some of the Company’s customers are condominiums and other entities wherein one individual customer connection serves many residences. Therefore, the Company serves approximately 384 customers but 569 equivalent residential units.

COMMENTS AND DECISIONS

System Reliability

Staff Comments

Staff noted the system shows no significant safety or reliability issues based on Idaho Department of Environmental Quality (“IDEQ”) surveys and complaint records. Pressure monitoring began in April 2024, with previous surveys indicating adequate pressure levels and no concerning events during 2019-2023. No customer complaints about pressure or reliability were reported with IDEQ during 2019-2023.

The system operates efficiently, with water rights of 2,814 gallons per minute (“GPM”) and a maximum capacity of 1,732 GPM. Staff noted though that the Company leases water rights. While current capacity meets demands, Staff could not evaluate future capacity needs due to the Company’s outdated Facility Plan.

Staff recommended updating the 2006 Facility Plan within one-year of the issuance of the final order in this case (and prior to its next general rate case) to analyze current and future demands, including peak usage scenarios. This update is crucial since the Company is required to maintain peak demands even with major components offline. While average demands are met, proper assessment of peak capacity needs requires an updated plan.

Company Reply

In its final requests, the Company asked that the Commission require that the updated Facility Plan be due by December 30, 2030.

Commission Decision

Rather than a Facility Plan as recommended by Staff, the Commission directs the Company to submit a less intensive capital plan outlining the needs of the system and how the Company will address them. The Company should work with Staff to develop the requirements of a capital plan that will help ensure the Company is adequately planning for the growth and maintenance of the system. This plan must be submitted within one-year of the issuance of this Order and before the Company’s next general rate case. The Commission notes that the Company needs to ensure that it can maintain sufficient service during a fire to ensure and promote the safety of the community and comply with the rules governing fire water flow.

Corporate Structure and Ownership and Related party Issues

Staff Comments

Staff stated Stoneridge is owned by Esprit which is in turn owned by J.D. Resort, Inc. (“JD Resort”). JD Resort is owned by Chan and Teresa Karupiah (the “Karupiahs”). As a result, Staff alleged that all transactions between these three companies are related party transactions that should be subject to greater scrutiny when making prudency determinations. Staff argued that the general rule is that the utility has “the burden of proving the reasonableness of its operating expenses paid to an affiliate” See *Boise Water Corp. v. Idaho Pub. Utilities Comm’n*, 97 Idaho 832, 837-38, 555 P. 2d 163, 168-69 (1976). Staff noted that the Idaho Supreme Court in this case found that “if there is an absence of data and information from which the reasonableness and propriety of services rendered and the reasonable cost of rendering such service can be ascertained by the commission, allowance is property refused.” *Id.* at 837.

Commission Decision

The Commission finds that related party entity transactions must receive additional scrutiny to ensure the reasonableness and propriety of the costs incurred.

Management Issues

Staff Comments

Staff expressed concerns about Stoneridge’s management practices, particularly regarding asset control and related entity transactions. Staff noted that after acquiring Stoneridge, Esprit moved crucial assets (e.g. land, easements, and water rights) from Stoneridge’s ownership, then leased those assets back to Stoneridge at a monthly rate. Staff was concerned that customers are now paying lease payments for assets that belonged to the Company and were counted as contributed capital as the system was being developed.

A July 2024 well pump failure highlighted additional issues. Instead of promptly replacing the equipment, the Company inappropriately asked customers to reduce water use and lobbied the Commission for expedited recovery—potentially delaying the purchase of a replacement pump. When Staff requested documentation for the purchase, the Company revealed a lease arrangement with Esprit rather than a direct purchase. Staff believed that this was inappropriate for several reasons including that it violates *Idaho Code* § 61-610’s requirements for transparency from a parent company.

Staff also noted that the lease terms appear excessive, charging 12.5% interest over five years—which exceeds the Company’s requested ROE. Importantly, when dealing with related entities, Staff asserted the standard for recovery is the lower of actual cost or market. Moreover, customers were charged before the pump was functional—as it still lacks essential components required to operate. Staff recommended excluding these costs until the pump works properly and Stoneridge has complete ownership.

The current arrangement of vital assets being held by a related entity and then leased to Stoneridge puts basic service at risk; hypothetically if Esprit’s assets were ever frozen in unrelated litigation, Stoneridge might lose access to essential infrastructure necessary to provide basic services to its customers. Staff recommended the Commission direct the Company to return all assets that were included in the original purchase of Stoneridge.

Additionally, Staff noted the Company shows preferential treatment in collections, failing to enforce payment policies against the owner’s golf course which was routinely in arrears to the Company. Staff asserted that the Company cannot discriminately apply its collection policy and disregard the Commission-approved tariff.

Company Reply

The Company stated that Staff’s assessment was not based upon accurate information and used unnecessarily inflammatory language. The Company also stated that, based upon tax returns and other documentation, Stoneridge has never owned real property, so Staff’s assertion that these assets were transferred to Esprit is mistaken. The Company also stated that Esprit bought the relevant infrastructure in 2018 and that it has never therefore been paid for by the Company’s customers. The Company stated that some of its interests may be sold to independent parties in the future. The Company also took issue with Staff’s depreciation treatment—arguing that Staff’s assessment wrongly attributed certain categories as contributed capital and that Staff’s recommendation would not depreciate more than \$1,200,000 in an appropriate manner.

The Company explained that in 2023, water rights were consolidated under Esprit, with only one right transferred from Company ownership. The Company argued this transfer was legitimate and market-based lease rates apply. The current lease charges \$23/acre foot, increasing to \$33/acre foot in 2025, plus ground rent for five locations.

The Company disputed Staff’s claims of mismanagement, requesting restoration of an 11% ROE and allowance of lease expenses. The Company contended lease amounts reflected fair

market rates and stated that Staff overlooked escalator clauses when comparing 2023 expenses to 2020 baseline. The Company emphasized that most water rights were never Company-owned—making lease arrangements appropriate and market-based. The Company argued Staff’s recommendations lacked factual support and failed to consider annual lease adjustments.

The Company also disputed Staff’s claim about pump replacement delays—stating that it acted immediately. The Company stated that it sometimes relied on Staff for guidance; however, this did not slow the Company’s response. The Company stated that later delays stemmed from attempting to reuse equipment and supply chain issues rather than management decisions.

The Company argued Staff inconsistently viewed related-party transactions—favoring only those benefiting customers. The Company explained the golf course payment issues reflected accounting delays—not true delinquency. Moreover, the Company’s debts to Mr. Karupiah exceeded golf course arrears. The Company stated that the issue will become moot as the golf course transitions to its own water supply.

Commission Decision

The Commission is concerned that assets essential to the operation of the Company are held by a related party. As a result, the Company’s operations could be impacted by matters completely outside of its control which could put safe and reliable service to customers at risk. In regard, to whom owned certain assets prior to the 2018 transaction the issue becomes whether those assets should be considered contributed capital now. It is the Company’s burden to demonstrate that these assets, including but not necessarily limited to, water rights, easements, and real property should not receive this treatment. To extent certain assets may not be considered contributed capital if demonstrated by the Company it still must demonstrate that expenses it incurs from related parties employing these assets are fair, just, and reasonable. These matters are discussed further below. The Commission also finds that the Company must apply its collection practices in a non-preferential manner.

Proforma Plant in Service

Staff Comments

Staff noted that it was not recommending recovery for several proforma projects and equipment because they were not yet used and useful. This “reduce[d] the Company’s proposed Plant in Service by \$730,457, accumulated depreciation by \$117,603 and associated depreciation expense by \$114,315.” Staff Comments at 7.

Commission Decision

The Commission notes that the Company did not dispute Staff’s assertions. Therefore, the Commission finds that Staff’s proposed reduction, due to the proforma projects not being in service yet and therefore not being used and useful, is appropriate. Relatedly, the reductions for associated depreciation expenses are also appropriate.

Depreciation Expense

Staff Comments

As shown in Table No. 1, the Company’s assessment for its recovery of depreciation expense differed from the recommended depreciation rates established in the National Association of Regulatory Utility Commissioners (“NARUC”) Depreciation Manual for Small Water Companies. Using rates established in the NARUC Depreciation Manual, Staff recommended \$8,007 less than the Company requested.

Table No. 1: Depreciable Lives for Company Assets

Account		Company Plant Life (years)	NARUC Life
309	Supply Mains	23.92	50
311	Power Pumping Equipment		20
320	Purification Systems	14.98	20
331	Trans.& Distribution Mains		50
333	Services	20.00	30
334	Meters and Meter Installations	13.99	35
335	Hydrants	31.70	40
339	Other Plant & Misc. Equipment	58.67	10

Id. at 8. Staff also recommended reclassifying certain specific expenses detailed in Attachment D to Staff’s Comments.

Company Reply

After acquiring Stoneridge, the Company filed six annual reports using depreciation schedules recommended by a former Commission Staff member. The Company never received feedback from Staff regarding its annual reports. In reviewing Staff’s Comments, the Company learned Staff prefers NARUC schedules—which reduced depreciation expense by using longer

depreciation lives. The Company questioned why NARUC rates became mandatory without prior notification.

Commission Decision

Absent a system-specific depreciation study, which can be cost prohibitive for small water companies, using the depreciation rates in the NARUC Depreciation Manual is industry standard and provides this Commission an objective tool to determine depreciation rates. Therefore, the Commission finds Staff's reliance on NARUC Depreciation Manual appropriate in this case.

Capitalizing Repairs and Rebuilds

Staff Comments

Staff recommended that three expenses incurred in 2023 be removed as expenses and instead be placed into plant in service. Two of the expenses were for water main repairs and the third was for pump repairs. This would lower the maintenance expense by \$17,451 and increase plant in service by the same amount. The result of this reclassification would increase the depreciation expense by \$534 in the test year.

Company Reply

The Company argued against capitalizing repairs in an aging system—comparing it to “putting makeup on a dying pig.” Reply Comments at 22. The Company contended these minor fixes (less than 1.5% of total plant value for 2023) would be discarded during eventual system replacement. The Company preferred treating repairs as operating expenses to track system health and guide planning. The Company thus requested that \$17,451 continue to be classified as expenses.

Commission Decision

The Commission finds that costs for repairs and maintenance that extend the life of a system are appropriately capitalized and eligible to earn a return as part of the Company's rate base. The Company's argument that the entire system will have to be replaced at the same time is at this time uncertain based on the record. Water systems routinely replace leaking pipes, which in turn extends the life of the system as a whole. Staff's recommendation was well-reasoned in this case and followed established accounting principles. After the system, or sections of the system, is/are replaced, the Commission will review the associated expenses for prudence, but such actions are not before the Commission at this time. As it stands, booking the expenses to plant in service is reasonable and consistent with our past decisions.

Golf Course Revenue

Staff Comments

Staff disagreed with excluding golf course revenue from rate calculations. Despite the course installing its own well in October 2023, the golf course's usage remains significant. The golf course used approximately 27 million gallons through August 2024, exceeding Company's estimates of 20 million gallons. Based on July-August consumption patterns compared to previous years, Staff projected the course will use 81.7% of historical consumption—approximately 34.9 million gallons annually.

Staff calculated expected revenue using this consumption estimate plus monthly charges for a 1.5-inch meter operating seven months yearly. The total projected revenue was \$25,457, which Staff recommended including in rate calculations. This reflects actual usage patterns and changes in meter size from 6-inch to 1.5-inch in 2024.

Company Reply

The Company disputed Staff's projection of golf course water usage at 81% of historical levels—arguing it failed to account for significant changes. While Staff based calculations on July-August data showing an 18.3% reduction from previous years, the Company cited two major factors affecting future usage.

First, the golf course invested \$175,000 in new irrigation controllers expected to reduce water consumption by 20%. Second, the Company's new well, initially planned for 600 GPM output, operated at only 60 GPM due to installation issues with the well casing. The Company was negotiating repairs or replacement of the well.

Relying on these factors, the Company projected much lower usage than Staff's estimate of 34.9 million gallons annually. The Company removed both the new well's production capacity and irrigation controller efficiency gains, forecasting approximately 9.8 million gallons yearly. This would reduce annual revenue by \$24,374 compared to Staff's projection.

Stoneridge emphasized the golf course's commitment to eventually eliminate dependence on the Company's water system. The Company argued that requiring another rate case instead of accepting these adjustments would be unreasonable and requested the Commission approve their lower revenue projection as more accurate.

Commission Decision

The Commission understands the Company's desire to exclude the golf course revenue from rate calculations due to the fact that the golf course is transitioning to providing its own water. However, based upon the record before us, the golf course still heavily relies on the Company to meet its water demands. Therefore, the Commission finds Staff's recommended 81.7% apportionment of the expenses—based on the golf course's draw on the Company's water—to be both reasonable, appropriate, and tailored to the record before us. In a future rate proceeding, if the actual golf course consumption is materially different than what the record provided in this case, the Commission can revisit the calculation of revenues received from the golf course.

Treatment of Golf Course

Staff Comments

Staff noted that the golf course represents a major water customer under common ownership with Stoneridge. The golf course currently receives a 10% discount based on it having interruptible service—allowing shutoffs during capacity issues. Case No. SWS-W-06-01, Order 30342. This discount was not in the original application in Case No. SWS-W-06-01; it was added later due to concerns about losing the golf course as a customer.

The situation has changed since October 2023 when the golf course began using its own well and Staff does not support the 10% interruptible service discount since the golf course has its own well and will rely less on Stoneridge for its water. As this well already reduces Company water usage, the rationale for the interruptible service discount has been mitigated. Staff analyzed consumption patterns to calculate future revenue—considering both historical use and expected reductions as the course transitions to its own water supply. Staff's calculation of the golf course's consumption is discussed above.

Company Reply

The Company stated that it has already responded to the Commodity Usage issue. The Company agreed to the removal of the rate differential.

Commission Decision

The Commission finds that it is not prudent for the golf course to receive an interruptible rate at this time as noted above, the Company has expressed its concerns that Staff's proposals are inconsistent—but always in the customers' favor—when it comes to the Company's relationship with its related entities in this case. The Commission notes that prudence remains the

consistent throughline through Staff's recommendations. After reviewing the record, the Commission finds that it is not appropriate for the golf course to receive a discounted rate. Interruptible rates are provided so that all customers—not just one—can benefit from the interpretability of larger customers when necessary for the cumulative benefits of all customers. The record does not adequately demonstrate how the golf course's interruptible rate benefits the system or the wider customer base in a sufficient manner to justify the discount.

Annual Electricity and Chemical Expenses

Staff Comments

Staff determined normalized expenses for 2023 by analyzing costs per gallon and consumption patterns over 2022-2023. For electricity, they calculated \$28,798 in annual expenses, exceeding the Company's estimate by \$7,889. This figure uses weighted averages of power costs and accounts for reduced golf course usage as it transitions to its own well.

For chemical expenses, Staff recommended \$8,557 annually, slightly above the Company's projection. Despite higher chlorine costs in 2023, Staff averaged two years of data to determine reasonable expenses. Both calculations consider the golf course's planned reduction in water usage and its impact on overall system production. Staff also discussed and illustrated its methodology and calculations for these numbers. Staff believed that its figures reflect operational costs on a normalized basis.

Company Reply

The Company believed that Staff's calculations were appropriate. The Company noted that once the determination was made regarding the golf course's water use, Staff's electricity and chemical expenses would need to be updated.

Commission Decision

The Commission finds that the recommendations on annual electricity and chemical expenses are reasonable.

Water Testing

Staff Comments

Staff applied the Commission's preferred practices and methodology to the Company's request for costs associated with water testing. This increased the Company's water testing expenses by \$1,328—increasing the total to \$1,358.

Company Reply

The Company did not object to Staff's recommendation on this matter.

Commission Decision

The Commission finds that the Staff's uncontested recommendation on this issue is reasonable.

Management Administration & General ("A&G")

Staff Comments

The Company does not have any employees and instead relies on contracts with Esprit. Because Esprit is a related party, Staff recommended that costs be reduced by the Commission's standard of the lower of cost or market. For A&G Labor expense, Staff recommended using the actual costs of the one employee performing management duties. This reduces A&G labor by \$31,395. In addition, Staff discovered that one of the payments for this employee was misclassified in Contract Services – Professional, and therefore Staff recommended that an additional \$3,168 be removed from Contract Services.

Company Reply

The Company said that Staff did not include costs related to paying the Company's accountant in this category. The Company thus proposed that Labor expense be reduced by \$15,750 instead of \$31,395—to reflect the accountant's compensation.

Commission Decision

The Commission has repeatedly asked the Company to better support its assertions on labor expenses. Case No. SWS-W-23-02, Order No. 36816 at 7. With the record before us, the Commission does not have enough information to find in the Company's favor currently. The Commission finds Staff's recommendation is reasonable. We implore the Company and its related entities to clearly identify, and separate costs associated with employees who work for multiple related entities as part of their employment.

Customer Accounts Labor Expense

Staff Comments

Staff recommended using the actual costs for employee wages and then grossing up that amount for payroll taxes. Then Staff recommended that 20% of that amount be allocated to the sewer company because this employee also provides services for that related company. Therefore, Staff recommends that Labor — Customer Accounts should be reduced by \$18,966.

Company Reply

The Company challenged Staff's calculation of hourly wages, stating the position typically worked 50-55 hours on a biweekly basis at \$26/hour—with 80% allocated to water operations. Including payroll taxes at \$6.50/hour, the Company calculated annual costs at \$35,490, which is significantly higher than Staff's \$18,966 estimate. The Company also noted the conflict with Staff's request for extended office hours and after-hours coverage. The Company stated that if after-hours coverage be approved that associated funding should be returned.

Commission Decision

The Commission finds that Staff's apportionment recommendation is appropriate. However, the Commission does not believe that there is a conflict with this decision or a need to allocate additional labor expenses to the Company. The Commission is not ordering the Company staff the office for 40 hours a week—rather the Commission simply finds that charging customers extra for services performed during what generally are typical business hours is unreasonable. The Commission has concerns that an extra charge for calls made during typical business hours will disincentivize customers to promptly report problems due to the punitive nature of extra charges being applied to all non-office hours. Therefore, the Commission directs the Commission to charge standard response rates for traditional office hours, even if it does not have the office staffed during all typical business hours.

Operations & Maintenance (“O&M”) Expense to Actuals

Staff Comments

The Company contracts with a water operator for its O&M. To account for this change, Staff recommended decreasing O&M by \$68,335 and increasing the Contract Services – Professional category by \$24,430.

Company Reply

The Company's water operator retired in 2023. The Company hired Integrity Management with initial monthly costs being estimated at \$2,036. However, actual monthly costs averaged \$4,243. Therefore, the Company requested approval to raise O&M expenses for contract operators by \$26,486 yearly for contracted services based upon these actuals.

Commission Decision

We acknowledge that small water utilities often contract with a water operator for O&M and those costs, when determined reasonable, are allowed for recovery. We agree with Staff that

costs related to contracted O&M are properly accounted for in Contract Services. The Company **did not provide** sufficient evidence to support the increased costs. For example, the **Company did not** submit invoices justifying the increase in cost from Staff's position. The Company is directed to book \$24,430 in Contract Services – Professional category for the contracted O&M expenses.

Tax Preparation, Miscellaneous, 7B Engineering, and Securities Issuance Application Fee
Staff Comments

Staff recommended that the Company remove the following from its proposed revenue requirement: 1) \$875 for an unintentionally included duplicate tax preparation expense; 2) \$1,049 for interest on a loan that was required to be categorized as equity; 3) \$5,800 for an expense that was accidentally attributed to the related Sewer Company rather than Stoneridge; and 4) \$320 for a one-time securities issuance application fee.

Company Reply

The Company agreed with Staff's recommendation on these matters.

Commission Decision

The Commission finds Staff and the Company's recommendation on this matter is reasonable.

Water Rights, Rights of Way, and Easement Leases

Staff Comments

As noted above, Stoneridge included \$30,233 to lease water rights, rights-of-way, and easements—assets that were previously considered contributed capital but were transferred to a related entity. Staff opposed charging customers again for assets they have already funded. Staff recommended returning these assets to Stoneridge and removing the lease expense from rates. Staff's proposed adjustment would decrease rental expenses by \$30,233.

Company Reply

The Company stated that the Commission does not have authority to order Esprit to transfer property to Stoneridge and believed that Staff overlooked yearly lease increases. The Company noted that the original \$2,000 lease from 2020 increased 8% annually. The Company requested reinstatement of \$30,233 annual expenses.

Commission Decision

The Commission cannot approve the Company's proposed expenses for leasing the water rights while that transaction appears to be structured in a manner designed to deliver returns to related entities at the expense of customers.

Stoneridge challenged the Commission's jurisdiction related to Esprit leasing these necessary assets to the Company. The Company is required to ensure that it can offer and maintain adequate service and the Commission is vested with the authority to regulate utilities to carry out the "spirit and intent" of Idaho Code Title 61. *Idaho Code* §§ 61-302 and -501. The Commission has serious concerns about the Company's access to water being compromised because it does not own the necessary water rights, rights-of-way, and easements to meet its statutory requirements. Further, the Idaho Code requires that all charges for public utility services be just and reasonable. *Idaho Code* § 61-301.

Additionally, the Commission has a statutory duty to ensure utilities provide safe and reliable service at fair, just, and reasonable rates. *Idaho Code* §§ 61-301 and -302. Contrary to the Company's assertion regarding this adjustment, the Commission does have authority to deny recovery for costs that the Commission finds to be unreasonable. It is the Company's burden to demonstrate that these assets should not be treated as contributed capital under the Commission's Policies and Presumptions for Small Water Companies, IDAPA 31.36.01.102. Even, if the Company could demonstrate that these assets should not be considered as contributed capital, which it has not in this record, it further has not demonstrated that the lease rate it is charging for these assets is the lesser of market or actual cost. The Commission does not believe that costs for leasing these assets back to the Company are fair, just, or reasonable or prudent. Therefore, the Commission rejects the Company's proposed rental expense.

Replacement Pump and for Well No. 3

Staff Comments

Staff recommended that the Commission disallow recovery of the replacement well pump for Well No. 3 because the pump did not work as intended. Staff also objected to the Company leasing the pump from Esprit—particularly for \$1,200 per month for five years (equivalent to approximately 12.5% interest per year). Staff also objected to the Company's refusal to allow Staff access to Esprit's records pursuant to *Idaho Code* § 61-610. Staff advocated for the lower of actual

or market since this was a related party transaction and stated none of the interest on the lease with Esprit should be recoverable in rates.

Company Reply

The Company explained why the pump/motor was not functional for the timeframe in question and proposed and proposed leasing the pump/motor from Esprit at \$1,040 per month—or equivalent to approximately 11% interest per year.

Commission Decision

The Commission denies any recovery under the lease agreement with Esprit for the same rationale the Commission has repeatedly discussed in this Order regarding the Company's other lease agreements with Esprit. We must also remind the Company that Staff has a statutory right to review the records of any parent company related party that engages in a direct transaction with the Company under *Idaho Code* § 61-610. The Company's refusal to be transparent in this regard is a sufficient reason to deny recovery for any costs that have any material connection to Esprit because the Company has not provided sufficient evidence demonstrating the costs is the lower of market or actual cost. Further, the Commission denies the Company's request for recovery for this equipment which does not yet appear to be used and useful.

Truck/UTV Lease

Staff Comments

Stoneridge leases various vehicles from Esprit. Customers are being charged for Stoneridge's use of a Ford F-150, Ford Ranger, Kubota UTV, backhoe, and associated licensing and fuel costs for each of these vehicles. Because the Company only has one employee, Staff believed that the lease agreement for the second truck was imprudent. Further, Staff noted the Company does not have a qualified employee for the backhoe; therefore, Staff suggested it should only be rented as necessary and not leased.⁵ Staff recommended that the Rentals – Property & Equipment be reduced by \$14,663 accordingly.

Company Reply

The Company defended including the backhoe and Ford Ranger expenses in its operating expenses. The Company stated that it has operators and that daily backhoe rentals would cost \$340 plus tax per occurrence. The Company stated that such charges would occur frequently—largely

⁵ Regarding potential rentals from Esprit, as noted above, the standard when dealing with a related entity is the lower of market or actual cost.

due to snow removal—and thus removing the costs from rates could be imprudent for customers. The Company requested reinstatement of the \$7,200 annual lease, including licenses and fuel. The Company argued that having equipment on-site enabled faster response times.

Commission Decision

The record does not justify raising customers' rates on this issue. Before recovery of costs related to the backhoe can be approved, the Commission would require more robust documentation in the record, including whether the Company had a licensed backhoe operator or someone willing to become certified and that the desired recovery was the most reasonable and cost-effective way to accomplish the work a backhoe is needed for. To adequately determine this, it would also be helpful to know the number of rental days that the Company expects each year. Without the necessary documentation in the record, we are required to disallow this expense by reducing Rentals – Property & Equipment by \$14,663.

Rental of Property

Staff Comments

Stoneridge shares office space with the Sewer Company but covers the entire cost of renting that space. Staff recommended that the cost be shared equally, and that Stoneridge's rental expenses be reduced by \$13,614 accordingly.

Company Reply

The Company stated that Staff misinterpreted the office lease terms. The Company uses parts of two spaces: an event center and sales office. The lease, starting January 2020, increased 8% annually. According to the Company, Staff incorrectly assumed the amount covered both Stoneridge Water and the sewer company. However, the \$27,228 expense solely belonged to Stoneridge's operations. Stoneridge stated that the division of rent for the shared spaces was based on revenue proportions. Accordingly, the Company requested the office lease amount be increased to \$27,228.

Commission Decision

The Commission finds Staff's recommendation is reasonable because the record does not justify raising the customers' rates on this issue. Before recovery for costs related to property rental are approved the Commission needs sufficient documentation to support the reasonableness of the Company's position. Accordingly, the Company's rental expenses are reduced by \$13,614.

Insurance Expense

Staff Comments

Stoneridge requested its own \$9,000 policy instead of being included in the umbrella policy that covers several related entities. Currently, Stoneridge pays \$7,000 of a \$29,839 umbrella policy. Staff disagrees with the Company's request to have its own more expensive policy and the amount it is paying on the umbrella policy. Staff also believes that the insurance expense listed in the Company's filing of \$432 (as derived by the test year expense) is too low.

Staff suggested that the most reasonable option is splitting the umbrella policy cost equally among six covered entities—raising Stoneridge's share of the umbrella policy from the test year's \$432 to one sixth of the cost of the umbrella policy—or \$4,973. This adjustment increases insurance expenses by \$4,973.

Company Reply

The Company stated that Staff confused the monthly insurance fee of \$432 with the yearly insurance fee—which is \$5,184 (\$432 multiplied by 12 months). The Company also explained that workers' compensation remained under Idaho's state program. The Company also stated that Staff divided Esprit's premium among six entities without considering the water supplier's higher risks and that some of the companies covered under the umbrella policy are inactive shell companies. The Company was provided with a standalone insurance policy of \$9,000 to cover Stoneridge alone. The Company explained that Esprit's previous insurer is withdrawing from the market and Esprit will need new coverage. The Company stated that it was reluctant to have the Company "take advantage of Esprit's resources without adequate compensation." Reply Comments at 43. The Company stated that, in accordance with its broker's advice, it planned on adopting the standalone policy in 2025 for Stoneridge at a cost of \$9,000.

Commission Decision

The record does not justify raising the customers' rates due to the Company wanting to seek independent insurance for Stoneridge. Like with many other adjustments discussed in this Order, the Commission finds it imprudent to charge customers extra for insurance when the record does not sufficiently support the need for the Company to a standalone policy. If the Company believes that it should pay a higher percentage of the umbrella policy, it should also support that claim with sufficient documentation on the record. The Company shall increase insurance expenses by \$4,973 to account for its fair share of the umbrella policy.

As noted previously, when dealing with related party transactions, the standard is the lower of the actual cost or the market rate. *Boise Water Corp.*, 97 Idaho at 837-38. The fact that the Company (i.e. Stoneridge) itself is complaining that *Stoneridge* is not providing enough money to Esprit suggests that the Company's duties to its customers have been compromised.

Rate Case Expenses

Company Position

The Company proposed several categories of general rate case expenses including attorneys' fees and years' worth of preparation for this rate case.

Commission Decision

The Commission approves the Company's request for \$12,665 in attorney's fees. The recovery for these attorney's fees shall be amortized over a three-year period. The Commission does not approve the Company's other rate case expenses. Recovery for expenses due to employees' labor has already been accounted for in other adjustments.

Working Capital

Staff Comments

Using the 1/8th method (dividing annual operating expenses by eight), Staff recommended a working capital allowance of \$32,107 for the Company.

Company Reply

The Company believed that this recommendation was appropriate providing that it incorporated the Company's updated income and expense ratio.

Commission Decision

The Commission finds the 1/8th method for working capital is reasonable.

The Gross Up and Associated Error Correction

Staff's November 6, 2024, Motion and Accompanying Decision Memorandum

On November 6, 2024, Staff filed the motion described above informing the Commission of a calculation error in the record, correcting the error, and requesting a deadline for the Company to comment on the calculation error. Staff stated that correcting this error, and the underlying categories affected by it, would reduce Staff's proposed revenue requirement by \$21,682 to \$271,113—effectively reducing Staff's 27.1% proposed increase to 17.6%. Staff stated that this correction did not include any new adjustments, but instead corrects the gross calculation. Staff stated that the Intervenors were supportive of Staff's proposed path forward.

Staff noted that the Company also adopted the error in its model which it relied on in creating its reply comments. Staff stated that fixing this same error in the Company's model would reduce its proposed revenue requirement by \$26,646 to \$450,546—effectively reducing the Company's proposed increase from 124.3% to 111.7%.

The Company's November 13, 2024, Supplemental Comments

The Company did not assert that the overall model was incorrect. However, the Company did state that, with the correction of the error incorporated, Staff's proposed increase was even less than inflation since the last rate case—only 1% per year. The Company estimated that \$2,000,000 to \$3,000,000 needs to be invested in the system over the next 10-15 years and argued that this, coupled with regulatory lag, placed the Company in a predicament that rate cases are meant to avoid.

The Company also stated that it had discovered an additional error in the data relied upon by Staff and the Company. This error arose from the information provided in the Company's Application. The Company stated that correcting this error would reduce the Company's request to a 79.7% increase. The Company provided a table with certain adjustments. The Company asked that the Commission consider the general length of rate cases. The Company also asked the Commission to consider that the approved rate would need to be sufficient to attract capital so that sufficient investments could be made to ensure the delivery of quality water to its customers. The Company requested that its proposed changes be implemented.

Commission Decision

The Commission previously authorized Staff and the Company to update their positions on the record based on the error discovered in the model. The Commission now clarifies that the method on that issue is hereby approved. While the mathematical error has been fixed, no party has argued that the previous error presents a continuing problem in the method used in this case.

The Commission notes that the Company's argument regarding inflation is misplaced in that we only sought the Company's response to the discovery of a calculation error in the model. There is no law or other requirement that rates need to outpace inflation and neither the Idaho Legislature nor the Idaho Supreme Court has directed that inflation is a metric we must consider in setting rates. We are charged with ensuring rates are fair, just, and reasonable so that utilities can operate safely and reliably. The Company can recover its prudently incurred expenses that it tenders to provide safe and reliable service. It is incumbent upon the utility seeking recovery of

such expenses to present its case in such a manner that demonstrates the expenses were incurred prudently.

The Company also discussed another potential error. The Commission appreciates the Company noting this matter—particularly given the potential for such an error to reduce the Company’s request. However, the record does not contain sufficient evidence about this matter. The Commission limits its decision on this matter to those comments that are “narrowly tailored to addressing the correction” at issue in Order No. 36389. Order No. 36389 at 3.

Return On Equity and Capital Structure

Staff Comments

Staff noted that an 11% ROE is typical for small water rate cases, and that the Company has asked for a 12% ROE. However, due to management issues discussed above, Staff recommended that the Commission approve a 10% ROE until the Company’s management issues have been addressed. Staff noted that, in the past, the Commission ordered a lower interim ROE for a different company until their management issues were addressed. *See* Order No. 30279, Case No. SPL-W-06-01. Staff discussed the components of the Company’s capital structure. Based upon Staff’s recommended 10% ROE applied to the Company’s 2% cost of debt, Staff recommended an 8.21% overall rate of return.

Company Reply

The Company stated that Staff’s proposed reduction, from the typical 11% ROE to a 10% ROE, was based on a flawed understanding of the facts. The Company therefore requested a 11% ROE. The Company also supported Staff’s calculation of its capital structure if it included an additional \$194,326 of equity and an 11% ROE.

Commission Decision

The Commission shares Staff’s concerns about the management of this Company and the lack of documentation and justification for related party transactions amongst other issues. The Commission hereby finds that Staff’s proposed capital structure and a 10% ROE with a commensurate rate of return and revenue requirement is reasonable.

Rate Design

Staff Comments

Staff considered the Company’s proposed alternative rate structures—such as higher commodity charges to promote conservation. However, Staff believed that this could destabilize

revenue—especially given uncertainty about golf course usage going forward. Staff discussed tiered pricing (with rates increasing at higher consumption levels) with the Company. While supporting conservation goals, Staff did not believe that this approach was feasible since winter meter readings are not collected. Staff suggested revisiting the idea of tiered rates once year-round consumption data becomes available or alternatively establishing seasonal rates to account for the months when meters are not read. Staff proposed using the Company’s rate design but applying Staff’s revenue requirement. This would lead to an increase for most meter sizes of about 24%.

Company Reply

The Company stated that it had reviewed Staff’s rate design and intended “to wait until Staff has an opportunity to review the proposed changes from the Company to Revenue and Expenses to update the proposed prices for service.” Reply Comments at 49. For the time being, the Company proposed a 124.27% increase in commodity charges and rate base.

Commission Decision

The Commission finds that using the Company’s rate design with Staff’s proposed revenue requirement (updated to fix the mathematical error discussed above) is reasonable. Tiered rates may be brought before the Commission in a later case with a record that can support a Commission finding on the matter.

Treatment of Service Connections with 1-inch meters

Staff Comments

Currently, customers with ¾-inch and 1-inch meters pay identical monthly charges of \$24.00. Previous Commission orders authorized this approach when 1-inch meters were less expensive to install. The Company now wants to charge higher fixed rates for new 1-inch meter customers. Staff opposed this change; it would charge a premium to customers who would likely have been provided with ¾-inch meters but for the Company’s request to instead install 1-inch meters. Staff is also concerned that this proposal could increase charges for all 1-inch meter customers due to the Commission’s prohibition of discriminatory rates for similarly situated customers. Additionally, Staff found one customer is paying \$82.44 monthly for a 1-inch meter—violating the Company’s tariff. Staff recommended maintaining uniform charges for both ¾-inch and 1-inch meter sizes and correcting the individual customer’s overcharge.

Company Reply

The Company stated that Staff has become obsessive over this issue and has repeated concerns about 1-inch meter billing practices. The Company stated that due to supply chain issues and economics, the Company installed 1-inch meters for some connections but billed them at ¾-inch rates. The Company requested permission to offer 1-inch service at its own 1-inch service rate for *only* those properties with the 1-inch meter who had associated additional demand (including ADUs and larger irrigation needs)—not those customers who would have properly been served by a ¾-inch meter who had a less expensive 1-inch meter installed. The Company stated that Staff was concerned that certain customers (those with a 1-inch meter who are currently being charged at ¾-inch meter rates) would be charged the higher 1-inch meter price. The Company stated that this was an unsubstantiated and harmful assumption that was not feasible with the Company’s billing software. The Company maintained its request to charge higher rates for 1-inch meters based on capacity needs.

The Company noted that one uniquely situated customer paid \$82.44 monthly through a special and individualized agreement with that customer. The Company stated that Staff recommended changing this rate. The Company defended maintaining the rate because it stated the rate was based on an individually established arrangement that had been reviewed by the HOA/customer and accepted by all parties.

Commission Decision

The Commission finds that Staff’s recommendation is the most reasonable and appropriate given the circumstances. The Company desired to install 1-inch meters because it was more cost effective. Customers should not pay a premium for the Company’s convenience. The Commission here finds that the Company may only charge 1-inch customers the approved 1-inch rate if the customer requested or required that meter size for service. In the abstract, the Commission understands the Company’s desire to charge customers who would need a separate 1-inch meter charge. However, the Commission does not have objective and sufficient documentation in the record to support a separate 1-inch meter charge that is higher than the ¾-inch meter charge.

The Company does not have the authority to make agreements that are not in accordance with its Commission-approved tariff.⁶

⁶ See *Idaho Code* §§ 61-315 and 501. Specifically, *Idaho Code* § 61-315 states: “No public utility shall, as to [classifications] make or grant any preference or advantage to any corporation or person or subject any corporation or

The Happy Valley Rancho Loan Surcharge

Company Position

The Company requested that Staff provide an updated accounting specifying when the Company needs to stop collecting the surcharge discussed in Exhibit N under Staff's proposed tariff.

Commission Decision

The Commission notes that the Company is right to seek a solution on this issue and comply with the Commission's mandates. However, the Commission does not currently have enough data in the record to make a finding. The Commission also notes that it is the Company's responsibility to maintain sufficient records on the matter and perform its own reconciliations of customer accounts and loan balances. The Commission encourages the Company to continue to work with Staff on the resolution of this matter.

The Proposed Tariff

Staff Comments

Staff objected to adding or increasing charges for services provided outside of the Company's limited office hours (10:00 a.m. to 2:00 p.m., Monday through Thursday) rather than more standard business hours (8:00 a.m. to 5:00 p.m., Monday through Friday). Staff recommended adopting standard business hours relative to service charges.⁷

The Company submitted a supplemental tariff with inconsistencies and duplicated language from other utilities' documents. After discussion, the Company allowed Staff to revise the proposed tariff using a standard template. This proposed tariff included portions of the Company's proposed tariff but was updated with Staff's recommendations. Although it is atypical for Staff to propose a tariff, Staff believed that it was appropriate in this case and recommended that the Commission order the Company to submit a compliance filing that incorporated Staff's suggestions. Some key differences between the Company's original tariff and Staff's proposed tariff are highlighted in the table below.

person to any prejudice or disadvantage. No public utility shall establish or maintain any unreasonable difference . . . as between localities or as between classes of service. The commission shall have the power to determine any question of fact arising under this section."

⁷ The Commission is not mandating the Company staff its office outside of the hours it already does, only that the nonrecurring charges be based on standard hours opposed to the Company's office hours.

Company Reply

The Company revised its proposals in its reply comments which are highlighted in the table below. Overall, the Company’s requested proposals are more aligned with Staff’s recommendations than its original recommendations. However, the Company and Staff still differ on the proposed Reconnection Charge for 31 days or more, the Call Out Charge, and the Field Collection Trip Charge as emphasized below.

Non-Recurring Charges

Proposed Charges	Company	Staff	Company Revised
Account Transfer	\$65	\$0	NA
Account Initiation	\$0	\$0	\$0
Out of Cycle Meter Read	\$0	\$0	\$0
Reconnection – 30 days or less	\$50 during office hours \$80 after office hours	\$18.50 during business hours \$33.50 after business hours	\$18.50 during office hours \$33.50 after office hours
Reconnection – 31 days or more	\$50 during office hours \$80 after office hours	3 times the monthly customer charge	<i>7 times the Monthly customer charge</i>
Return Check	\$25	\$20	\$20
Late Payment	10% or \$5 minimum	1% per month	1% per month
Certified Mail	\$20	\$0	\$0
Paper Statement Fee	\$10	\$0	\$0
Call Out	\$50/hour during office hours \$80/hour after office hours	\$0	<i>\$50/hour during office hours \$80/hour after office hours</i>
Field Collection Trip	\$40	\$0	<i>\$40</i>
Bulk Water Sold to Contractors	\$100	\$26.77 meter rental charge and consumption billed a Schedule 1 usage charge	\$26.77 meter rental charge and consumption billed a Schedule 1 usage charge
Construction Water	Minimum monthly rate and commodity charges during time of use.	Schedule 1 minimum monthly rate and commodity charges during time of use.	Schedule 1 minimum monthly rate and commodity charges during time of use.

Staff Comments at 26; Reply Comments at 59-60 (emphasis added).

Commission Decision

The Commission notes that the Staff and the Company now agree on all the Non-Recurring Charges except the Reconnection – 31 days or more, Call Out, and the Field Collection Trip

charges. The Commission finds that allowing the Company to charge a customer triple its monthly charge for reconnections after 31 days is sufficient compensation for the Company. This reconnection charge will also be appropriate deterrence for customers and should discourage them from sporadically disconnecting and reconnecting without providing adequate compensation to the Company. The Commission finds that payment for the Call Out Charge and Field Trip Collection Charge are sufficiently embedded in rates to avoid the need for an additional charge. The Commission also orders the Company to submit a compliance filing with Staff's recommendations found in Staff's Attachment J, with the approved rates, within 30 days of the issuance of this order. The Commission approves the following charges as seen in the table below. We also note that the business hours for standard charges should be from 8 a.m. to 5 p.m. Monday through Friday.

Non-Recurring Charges	Commission Approval
Account Transfer	\$0
Account Initiation	\$0
Out of Cycle Meter Read	\$0
Reconnection – 30 days or less	\$18.50 during business hours \$33.50 after business hours
<i>Reconnection – 31 days or more</i>	<i>3 times the monthly customer charge</i>
Return Check	\$20
Late Payment	1% per month
Certified Mail	\$0
Paper Statement Fee	\$0
<i>Call Out</i>	<i>\$0</i>
<i>Field Collection Trip</i>	<i>\$0</i>
Bulk Water Sold to Contractors	\$26.77 meter rental charge and consumption billed a Schedule 1 usage charge
Construction Water	Schedule 1 minimum monthly rate and commodity charges during time of use.

Compliance with Order No. 34391

Staff Comments

When Esprit acquired Stoneridge, the Commission required quarterly financial statements, complaint reports, and monthly account balance updates. Though the Company was initially slow in providing these items, the Company now files timely reports. Therefore, Staff recommended ending these special reporting requirements, as these requirements have served their purpose of monitoring post-acquisition stability.

Commission Decision

The Commission finds that Staff and the Company's recommendation on this matter is reasonable.

Intervenors' Joint Comments

The Intervenors submitted joint comments in this case. The Intervenors' stated that they had reviewed Staff's Comments, and the discovery submitted in this case, and found Staff's Comments to be thorough. The Intervenors' stated that, while a lower rate than the one proposed by Staff would have been more beneficial, they thought that Staff's recommendation was "fair, and reasonable." Intervenor Comments at 3 quoting *Idaho Code* § 61-502. The Intervenors suggested that the Company also accept Staff's recommendation. The Intervenors also stated incurring additional attorney's fees in this case was not justified and should be avoided.

Customer Comments

Written

Approximately 236 public customer comments have been filed in this case. The most common topic was a general, but universal, sentiment against the Company's proposed increase. Some of these comments noted that some increase was justifiable, but the Company's proposed increase was unreasonably high. Nearly half requested that a forensic audit be performed on the Company. There were also many comments expressing concerns over the Company's allegedly questionable business practices, mismanagement, and the relationship between the Company and related entities owned or controlled by the owner of the Company. Many of these concerns were centered on the related entities getting preferential treatment. Specifically, many comments had concerns related to the golf course in the area and how, with the recent construction of its own well, its service would be incorporated into rate base with its decreased consumption.

Many of the comments were concerned about how the Company's proposed increase would affect those on a fixed income—which represents a large portion of the community. Some of the comments asked that an increase be phased in overtime to avoid rate shock. Concerns were expressed over the infrastructure of the system, the systems' lack of back-up power in the event of an outage, and the inability to fight fires during an outage. Some comments addressed the quality of the water and requested testing.

Customer Hearings

Two public customer hearings were held in the service territory one the evening of October 9, 2024, and one the morning of October 10, 2024. These hearings were well attended by customers. The customers were uniformly opposed to the Company's proposed increase. Of note, many customers expressed concerns about the allegedly high levels of chlorine in their drinking water. Many testified that the drinking water tasted strongly of chlorine, smelled of chlorine, or killed their plants. Several testified that they needed to purchase water filters to combat what they asserted was high chlorine content in their drinking water. Several customers also noted that they were concerned about the allegedly high iron levels in the system.

Many customers were also concerned about the sufficiency of the Company's backup system during an electrical outage. Customers noted that a recent fire in the area had resulted in an electrical outage which also resulted in a water system failure. The customers were highly concerned over the potential of fire hydrants, and other water fixtures, not being able to work in a future potential fire—thus endangering the customer's property and safety. Many customers were also concerned about the low water pressure due to the gravity fed system.

Many customers expressed concerns about the integrity of Mr. Karupiah and his business practices. Specifically, several customers expressed concerns about the relationship between the Company and the related entities. Some customers expressed concerns that the owner was using unmetered water fire hydrants for personal use and/or the use and benefit of his related entities.

Certain public officials came and testified that they had received numerous complaints regarding the Company and heard several concerns about this case and the proposed increase.

Commission Decision

The Commission has reviewed the customers' written comments and believes that the Company's rate increase incorporates the customers concerns regarding the scale and cost of the increase. The customers' concerns about system reliability during a fire in the area is also discussed above. We appreciate the customer comments—both written and received through the customer hearings. Regarding the specific issue of the water tasting of chlorine, the Commission directs Staff to bring this issue to the attention of the IDEQ—if such a directive has not already been carried out.

COMMISSION DISCUSSION AND FINDINGS

The Commission has jurisdiction over the Company and the issues in this case under Title 61 of the Idaho Code. Specifically, the Commission regulates “public utilities,” including “water corporations” that serve the public or some portion thereof for compensation. *See Idaho Code* §§ 61-125, -129, and -501. The Commission, upon finding that the rates charged by a public utility are “. . .are insufficient . . . shall determine the just, reasonable or sufficient rates . . . to be thereafter observed and in force and shall fix the same by order” *Idaho Code* § 61-502.

In a general rate case, the Company’s intrastate revenue requirement, and every component of it, both rate base and expense, are at issue. IDAPA 31.01.01.124.01. The Commission may grant, deny, or modify the revenue requirement requested and may find a revenue requirement different from that proposed by any party is just, fair, and reasonable. *Id.* The Company’s retail rates and charges, both recurring and non-recurring, are at issue, and every component of every existing and proposed rate and charge is at issue. IDAPA 31.01.01.124.02. The Commission may approve, reject, or modify the rates and charges proposed and may find that rates and charges different from those proposed by any party are just, fair, and reasonable. *Id.*

Based on the record before us, the Commission here approves an 18.6% increase in the Company’s general rates. This is based upon a total revenue requirement of \$273,258, a rate base of \$264,515, a required rate of return at 8.21%, and a 10% ROE. Relatedly, the Commission approves the adjustments that comprise these determinations as found in Exhibits 1, 2, and 3. The Commission also affirms its decisions discussed above.

As a general matter the Commission will note that Staff, the Intervenors, and numerous customers expressed serious concerns about the Company’s business practices—particularly around the Company’s dealings with related entities. It should be noted that Commission had three categories of concerns that had general applicability across several areas.

First, the Commission believes that it is necessary to reiterate what we stated in Case No. SWS-W-23-02, Order No. 36816: “If the Company believes the [approved rate] is too low, we remind the Company it is the Company’s—not Staffs or the Commission’s—responsibility to support its proposed increases with accurate, itemized and verifiable cost information.” Order No. 36816 at 7. In this case, the Company again failed to provide sufficient information to justify several of the expenditures it may have otherwise been allowed to recover. The Commission must

base its decision on the record before it and if the record does not support the Company's position, we cannot grant the requested relief.

Second, the Commission notes that Staff, the Intervenors, and numerous customers expressed concerns about the Company's relationship with related entities. The Company suggested that Staff made recommendations outside of the Commission's jurisdiction and treated the Company's relations with these related entities in an inconsistent matter. Specifically, the Company argued Staff accepted the benefits available to the Company's customers from related entities but rejected additional costs as imprudent. The Commission notes that rate making and prudence determinations are a tenant of its statutory duties. Choosing to charge customers a premium when the Company could seek market-based transactions which would benefit customers is a choice made by the Company and its related entities. Absent supported documentation on the record, we will not allow exaggerated costs to be passed to customers. Unsupported related entity transactions are not prudent, and it is not beyond our decision-making authority to scrutinize them or disallow recovery. While the Commission will make its own determinations, when determining the prudence of related party transactions, it is routine for Staff to recommend that customers should be able to utilize the benefits of such relationships where available but not be subject to excessive charges. The Commission's standard for recovery for a related party transaction is the lesser of the actual cost or the market rate. *Boise Water Corp.*, 97 Idaho at 837. The Commission believes that decisions in this case are consistent with the intent and spirit of the *Boise Water* decision and our past decisions.

The Supreme Court also noted that “[c]harges arising out of intercompany relationships between affiliated companies should be scrutinized with care . . . and if there is an absence of data and information from which the reasonableness and propriety of the services rendered and the reasonable cost of rendering such services can be ascertained by the commission, allowance is properly refused.” *Boise Water Corp.*, 97 Idaho at 837, citing *Solar Electric Co. v. Pennsylvania PUC*, 137 Pa.Super. 325, 9 A.2d 447, 473 (1939). Frankly, the Company's relationships with its related entities have clearly demonstrated the need for this additional scrutiny. The Company's argument that it is “[taking] advantage of Esprit's resources without adequate compensation” is an illustration that Stoneridge does not understand its duties to serve customers at fair, just, and reasonable rates over its relationship with related entities. Reply Comments at 43. We expect Stoneridge to seek the best deals for its customers; its unsubstantiated complaint that it is not

paying more illustrates the problems of these related party transactions. If the Company feels that the Commission is not treating these related party transactions like regular arms-length transactions, it is incumbent upon the Company to demonstrate that the transactions are fair, just, and reasonable when compared to the broader market.

Third, it is the Company's burden to provide sufficient evidence to justify its request rate increase. In many instances the Company has failed to provide sufficient evidence to justify the expenses it seeks recovery of now. Can the Company remedy this looking forward? Possibly depending upon the quality of evidence it submits. The decision made in this case relates to the record before the Commission.

ORDER

IT IS HEREBY ORDERED that the Commission here approves an 18.6% increase in the Company's general rate. This is based upon a total revenue requirement of 273,258, a rate base of \$264,515, a required rate of return at 8.21%, and a 10% ROE.

IT IS FURTHER ORDERED that the Commission here adopts all findings and approvals made in the "Comments and Decisions" section above. Exhibits containing the adjustments and other matters will follow issuance of this Order.

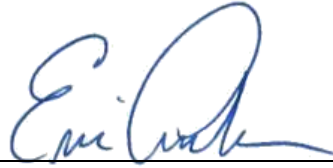
IT IS FURTHER ORDERED that the Company must file a Facilities Plan as described above, within one-year of the issuance of this Order.

IT IS FURTHER ORDERED that the Company shall submit a compliance filing with Staff's recommendations found in Staff's Attachment J, with the approved rates, within 30 days of the issuance of this order.

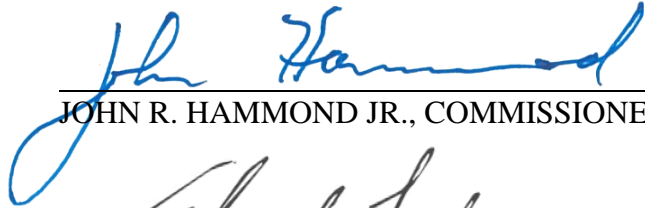
THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order about any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition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

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DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 29th day of November 2024.



ERIC ANDERSON, PRESIDENT

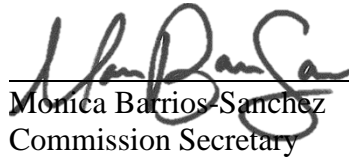


JOHN R. HAMMOND JR., COMMISSIONER



EDWARD LODGE, COMMISSIONER

ATTEST:



Monica Barrios-Sanchez
Commission Secretary

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