Office of the Secretary
Service Date
April 28, 2023

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF VEOLIA WATER IDAHO INC. FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER SERVICE IN THE STATE OF IDAHO	)))))))	**CASE NO. VEO-W-22-02** **ORDER NO. 35762**

This Order establishes the revenue requirement and rates for Veolia Water Idaho, Inc. ("Company" or "Veolia"). The Commission establishes a rate base for the Company of $255,162,220, and a revenue requirement of $56,157,933. Attachment A. The Commission approves a 9.25% return on equity, and an overall 6.91% rate of return. This $2,756,227 revenue increase will increase customer rates by 7.06%, to be implemented equally across the board to all rate components and customer classes, Residential, Commercial, Public Authority, and Private Fire Service. The Commission denies the Company's request to implement a Distribution System Improvement Charge.

PROCEDURAL HISTORY

On September 30, 2022, the Company filed an Application with the Idaho Public Utilities Commission ("Commission") requesting authorization to raise the rates it charges for water service. The Company requested an October 31, 2022, effective date.

On October 20, 2022, the Commission issued a Notice of Application, Notice of Suspension of Proposed Effective Date, and Notice of Intervention Deadline. Order No. 35569. Subsequently, the Commission granted intervention to Ada County; Sharon Ullman, pro se; Micron Technology, Inc.; and the city of Boise City (collectively "Intervenors"). Order Nos. 35589 and 35604.

On December 15, 2022, the Commission issued a Notice of Schedule setting forth submission deadlines for Commission Staff ("Staff")[1], Intervenor, and Company written testimony. Order No. 35628. On February 21, 2023, the Commission issued a Notice of Schedule, Notice of Customer Hearing, and Notice of Technical Hearing. Order No. 35683.

On March 27, 2023, the Commission held a Customer Hearing. On April 4, 2023, the Commission held a Technical Hearing at which all Intervenors participated.

[1] Pursuant to Commission Rule of Procedure 37 the "Commission Staff may appear in any Commission proceeding as an impartial representative of the public interest[.]" IDAPA 31.01.01.037.

APPLICATION

Veolia is a Commission-regulated water corporation that provides service to Boise City and surrounding areas and currently serves approximately 105,000 customers in Ada County, Idaho. *See Idaho Code* §§ 61-125 and 61-129. The Company provides service under Amended Certificate of Public Convenience No. 143. Veolia's most recent general rate case was filed in 2020, Case No. SUZ-W-20-02.

Veolia has submitted proposed Schedule Numbers 1, 1B, 2, 3, and 4 setting forth the proposed changes to be made to customers' rates. Application at 2. Veolia represents that if the Commission approves the request in full, customer bills would be adjusted by 24.1% and Company revenues would increase by 23.4% or $12.1 million per year. *Id.* Veolia represents that the proposed rate of return under the revised rates and charges will be 7.77%. *Id.*

Veolia represents that the revenue realized under its presently authorized rates produces a rate of return of 4.59% based on a historical year ending June 30, 2022. *Id.* at 3. Veolia states that it seeks additional revenues to recover increased operating expenses and costs associated with plant additions, and to produce a fair rate of return. *Id.*

Veolia is proposing a revision to its Rules and Regulations Governing the Rendering of Water Service to reflect the name change from Suez Water Idaho Inc. to Veolia Water Idaho, Inc.; to eliminate 1¼-inch meters reference from the tariff; to revise the service line connection from one-inch or smaller to two-inch or smaller according to NFPA 13D standards; and to implement a Distribution System Improvement Charge ("DSIC"). *Id.*

Veolia proposes to implement the requested increase in revenue by a uniform percentage increase to all rate elements, except for Private Fire Service rates which would see no increase. *Id.* Veolia represents that the average residential bill would increase by $0.25 a day or $7.59 per month, the average commercial bill by $0.93 a day or $27.92 a month, and the average public authority bill by $0.85 a day or $25.46 a month. Legacy Eagle Water Company area customer rates will continue to phase-in over time. Press Release at 1; *see also* Order No. 35247. The existing Eagle average residential bill would increase by $0.15 a day or $4.43 per month, the average commercial bill by $0.54 a day or $16.29 a month, and the average public authority bill by $0.50 a day or $14.85 a month. Press Release at 1.

PUBLIC COMMENTS AND TESTIMONY

I. Public Comments

The Commission received and reviewed one hundred and seventy-nine (179) written comments from the public. The vast majority of the written comments oppose the Company's proposed 24.1% rate increase. These generally asserted that the proposed rate increase was unreasonable citing the present state of the economy, inflation, and the Company's recent acquisition and transition from Suez Water Idaho Inc. to Veolia Water Idaho Inc.

II. Customer Hearing

On March 27, 2023, the Commission held a Customer Hearing. During the hearing seven members of the public testified. Members of the public who testified voiced many of the same concerns found in the written public comments including issues with fixed income, and hardships that would result if the Company's proposed rate increase was approved.

COMMISSION FINDINGS AND DECISIONS

Veolia is a water corporation and a public utility, as defined under Title 61 of the Idaho Code, and provides water service to the public in Idaho. *Idaho Code* §§ 61-125, and -129. The Commission has jurisdiction over the Company and this matter under *Idaho Code* §§ 61-501, -502, -503, -507, -520, -523, and -622.

In a general rates 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, including those of special contract customers, 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.*

Test Year, Capital Structure, and Rate of Return

A. Test Year

In ratemaking, the purpose of a test year is to "develop representative operating data that will provide a meaningful comparison and guide for developing future revenue requirements, and allow the parties to work with actual data, while still recognizing projected changes which are reasonably certain to occur." Order No. 33757 at 4 (internal citations omitted).

The Company requests a test year consisting of a 12-month historic period beginning July 1, 2021, ending on June 30, 2022, and a nine-month adjustment period ending on March 31, 2023. Tr. vol. II, 532. Staff initially proposed using the Company's test year, with a cut-off date of December 31, 2022, for pro forma adjustments. Tr. vol. III, 927. However, as the 2022 actual amounts became available, Staff adjusted the Company's test year of July 1, 2021, through June 30, 2022, to a calendar year test year ending December 31, 2022, with no pro forma adjustments *Id.* at 928.

The Company disagrees with Staff's recommendation and argues that known and measurable adjustments should be included in the Company's operating expenses for recovery after Staff's proposed December 31, 2022, test year end period. Tr. vol. II, 163. The Company argues that costs that have already been incurred or that can be reasonably measured before the conclusion of a rate proceeding should be included for the Commission's consideration. *Id.* No Intervenor proposed an alternative test year.

The Commission finds it fair, just, and reasonable to adopt a calendar year test year ending December 31, 2022, with limited pro forma adjustments. The Commission has previously explained that "[i]t simply is not possible to carefully review investment cost figures and information that are provided close to or at the time of hearing." Order No. 29838 at 6. Company data should be provided with sufficient time so that Staff and other parties may incorporate the information in prefiled testimony. This will facilitate the technical hearing process and eliminate the need to argue over forecasts or pro forma adjustments outside of an established test year. "Not only will data be known and measurable by the time other parties prefile testimony and for the hearing, it will be more convenient and administratively easier for all parties." *Id.* at 7. We continue to believe that partial projections should be limited and accepted only when Staff and parties have the opportunity to verify any projected data prior to presentations of their cases.

B. Capital Structure

The Company proposes to use the capital structure of its parent company Veolia Water Resources, which maintains capitalization percentages of 44.43% debt and 55.57% equity. Tr. vol. II, 271. Nether Staff nor any Intervenors object to the Company's proposed capital structure.

The Commission finds it fair, just, and reasonable to adopt a capital structure of 44.43% debt and 55.57% equity for ratemaking purposes.

C. Rate of Return

For utility purposes, the rate of return ("ROR") is determined by calculating the weighted average cost of capital ("WACC"). WACC is calculated by multiplying the cost of each capital source, debt and equity, by its relevant weight and then adding the products together.

To determine a fair and adequate rate of return, the Commission is guided by United States Supreme Court decisions. In *Bluefield Water Works & Improvement Company v. West Virginia Public Service Commission*, the Supreme Court stated:

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding, risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.

Bluefield Waterworks & Imp. Co. v. Pub. Serv. Comm'n of W. Va., 262 U.S. 679, 692–93, 43 S. Ct. 675, 679, 67 L. Ed. 1176 (1923).

> From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

Fed. Power Comm'n v. Hope Nat. Gas Co., 320 U.S. 591, 603, 64 S. Ct. 281, 288, 88 L. Ed. 333 (1944) (internal citation omitted). As a result of these Supreme Court decisions, three primary standards have evolved for determining a fair and reasonable rate of return: (1) the financial integrity or credit maintenance standard; (2) the capital attraction standard; and (3) the comparable earnings standard. Order No. 30722 at 29.

1. Requested Rate of Return

The Company requests an overall ROR of 7.77%, including a 10.80% return on common equity ("ROE"), a 3.99% cost of debt, and based on a capital structure of 44.43% debt and 55.57% equity. Tr. vol. II, 271; Walker Ex. 1, Sched. 1.

Company Proposal

Line No.	Capital Structure Component	Amount	Percentage	Cost of Source	Weighted Avg. Cost of Capital
1	Debt	$1,222,046,487	44.43%	3.99%	1.77%
2	Equity	$1,528,664,904	55.57%	**10.80%**	6.00%
3	Total	$2,750,711,391	100.00%		**7.77%**

Staff proposes an overall ROR of 6.77%, including a 9.00% ROE, a 3.99% cost of debt, and based on a capital structure of 44.43% debt and 55.57% equity. Tr. vol. III, 814; Terry Ex. 119, Sched. 5.

Staff Proposal

Line No.	Capital Structure Component	Amount	Percentage	Cost of Source	Weighted Avg. Cost of Capital
1	Debt	$1,222,046,487	44.43%	3.99%	1.77%
2	Equity	$1,528,664,904	55.57%	**9.00%**	5.00%
3	Total	$2,750,711,391	100.00%		**6.77%**

Micron proposes an overall ROR of 6.97%, including a 9.35% ROE, a 3.99% cost of debt, and based on a capital structure of 44.43% debt and 55.57% equity. Tr. vol. III, 978; Gorman Ex. 401.

Micron Proposal

Line No.	Capital Structure Component	Amount	Percentage	Cost of Source	Weighted Avg. Cost of Capital
1	Debt	$1,222,046,487	44.43%	3.99%	1.77%
2	Equity	$1,528,664,904	55.57%	**9.35%**	5.20%
3	Total	$2,750,711,391	100.00%		**6.97%**

2. Cost of Debt

The Company presented evidence that its embedded cost of debt is 3.99%. Staff accepts this cost as reasonable and no Intervenor challenges the Company's calculation of its cost of debt.

The Commission finds it fair, just, and reasonable to adopt a cost of debt is 3.99% for ratemaking purposes.

3. Cost of Common Equity or Return on Equity

The Company requests a ROE of 10.80%. Tr. vol. II, 246. The Company argues that a ROE of 10.80% reflects the Company's unique risk characteristics. *Id.* The Company presented testimony discussing the present state of the utility industry, analyzing the Company's selection and application of a comparable group, discussing capital cost rates, conducting a financial analysis, and conducting a risk analysis.

The Company used several models to help formulate its requested ROE, the Discounted Cash Flow ("DCF"), Capital Asset Pricing Model ("CAPM"), and Risk Premium ("RP"). *Id.* at 247. The Company states that the current range of its ROE calculations is 9.60% calculated by the DCF method to 11.60% calculated under CAPM. The Company's RP analysis elicited an 11.3% ROE. *Id.* The Company then used a comparable group of seven publicly traded companies to estimate the requested ROE. *Id.*

Staff does not agree with the Company's inclusion of an adder based on applying the Hamada Formula to the Company's calculation that would increase the Company's ROE by 110 basis points or 1.1%. Tr. vol. III, 805. Staff argues: (1) the Hamada formula is not designed for a company that follows a constant leverage policy; (2) the Hamada formula is usually recommended for a company that has a high level of debt that is far above optimal; and (3) the Hamada formula does not take into account default risk. *Id.* at 805-07.

Micron also does not agree with the Company's risk adjustments as applied to the Company's DCF, CAPM, and Risk Premium. Tr. vol. III, 1114. Specifically, Micron argues that the Company's Hamada adjustment is a market-to-book ratio or leverage adjustment that is not applicable in this case and produces results that are unjust and unreasonable. *Id.* at 1114-15.

Staff proposes a ROE of 9.00%. Tr. vol. III, 814; Terry Ex. 119, Sched. 5. Staff provided testimony concerning the state of the economy, the Company's status as a wholly owned subsidiary, the application of the Hamada Formula in the calculation of a ROE, and Staff's selection of a proxy group for its analysis. Tr. vol. III, 801. Staff utilized the Comparable Earnings Model, the DCF model, and CAPM methods to calculate a proposed ROE. *Id.* Staff used a proxy group consisting of the same seven publicly traded companies selected by the Company in its comparable group, with the addition of Veolia Environnement S.A. to estimate Staff's proposed ROE. *Id.* at 807-08; Terry Ex. 119, Sched. 1.

For the Comparable Earnings Model, Staff used the last three years of ROE as a comparison. The 2021 ROE results ranged from 3.51% to 17.31% with an average of 9.78%. The 2020 ROE results ranged from 1.23% to 13.42% with an average of 8.94%. The 2019 ROE results ranged from 2.63% to 13.99% with an average of 9.02%. The average of all the results together is a ROE of 9.25% with a median of 10.26%. *Id.* at 809; Terry Ex. 119, Sched. 1.

For the DCF model, Staff's ROE results ranged from 3.50% to 11.39% with an average of 7.91% and median of 9.04%. *Id.* at 810; Terry Ex. 119, Sched. 2.

For the CAPM analysis, Staff's ROE results ranged from 6.32% to 13.11% with an average of 9.33% and a median of 8.98%. *Id.* at 813; Ex. 119, Sched. 3.

Micron recommends that the Commission award a ROE within a recommended range of 9.00% to 9.70%, with a midpoint of 9.35%. Tr. vol. III, 978. Micron provided testimony concerning observable market evidence, the impact of Federal Reserve policies on current and expected long-term capital market costs, an assessment of the current risk premium built into current market securities, and a general assessment of the current investment risk characteristics of the regulated utility industry and the market's demand for utility securities. *Id* at 1105.

Micron conducted a Constant Growth DCF Model with Analysts' Growth, a Constant Growth DCF Model with Sustainable Growth, and a Multi-Stage Growth DCF Model. *Id.* at 1075. Based on the current market conditions, Micron represents that its DCF studies indicate a fair ROE in the range of 8.60% to 9.50%, with an approximate midpoint of 9.00%. *Id.*

Micron conducted a Risk Premium analysis and recommends high-end equity risk premium in forming a proposed ROE. *Id.* at 1085. Micron's Treasury bond risk premium and utility bond risk premium analysis indicates a ROE in the range of 9.41% to 9.73%, with an approximate midpoint of 9.60%. *Id.* at 1087.

Micron conducted a CAPM study using a normalized utility beta, which produced a ROE of approximately 9.70%. *Id.* at 1104.

The Company does not agree with Staff and Micron's proposed ROE calculations. Among its objections, the Company does not agree with Staff's inclusion of Veolia Environnement S.A. in Staff's proxy group. Tr. vol. II, 371. The Company does not agree with Micron's inclusion of a Gas proxy group. *Id.* at 371-77. The Company also argues that Staff and Micron did not conduct a proper risk analysis of the Company as compared to the proxy group. *Id.* at 371.

Having reviewed the record, the arguments of the parties, and all submitted materials, the Commission finds a ROE of 9.25% is fair, just, and reasonable in this case. To determine a fair ROE, the Commission is guided by the standards set forth in the above Supreme Court decision: (1) the financial integrity or credit maintenance standard; (2) the capital attraction standard; and (3) the comparable earnings standard. Order No. 33757 at 7-8. The Commission has previously explained that there are:

> various methods for determining a fair ROE, including DCF analyses, the Comparable Earnings method, Risk Premium analyses, and the Capital Asset Pricing Model. Each method attempts to estimate a sufficient ROE to attract free market investors into buying the Company's stock. In summary:
>
> - A DCF method assumes an investor buys stock at a price reflecting the present value of the future cash the investor expects to receive from dividends and the ultimate sale of the stock. Since future dollars are worth less than present dollars, the future cash flow is discounted back to the present at the investor's required ROR;
> - A Comparable Earnings method evaluates returns earned by other companies, including utilities, to quantify an investor's expected return, taking into account the risks associated with a particular investment;
> - A Risk Premium method starts with the ROR for a low-risk investment—such as government or utility bonds—and adds a premium based on the relative risk associated with a utility's stock; and
> - A Capital Asset Pricing Model, measures risk in relation to the market as a whole. As markets change new concerns develop in disparate financial circles related to the calculations used to determine the cost of equity.
>
> While each of these methods can be useful in estimating a utility's ROE, as with other analytical tools used in ratemaking, these methods only imperfectly predict the Company's future requirements and performance. Further, the ROE allowed by a regulatory agency is but one factor that a prudent investor might consider when deciding whether to buy the Company's stock.

Id. at 8.

In reaching its decision, the Commission notes that a ROE of 9.25% falls within the ranges determined by Staff, Micron, and the Company's own ROE calculations when not adjusted by the Company's adders. The Commission is not persuaded by Company's arguments regarding the application of the Hamada Formula, and the associated adjustments to its ROE calculations, to resolve alleged financial risk difference between market value cost rates and book value cost rates. Similarly, the Commission is not persuaded by the Company's risk analysis and size comparison to the proxy group that ignores the Company's status as a wholly owned subsidiary.

The Commission finds that a ROE of 9.25% will allow the Company to earn a return "generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding, risks and uncertainties." *Bluefield*, 262 U.S. at 692. The Commission also finds that the associated rate of return will be "reasonably sufficient to assure confidence in the financial soundness of the utility" and adequate, "to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." *Id.* at 693.

II. Adjustments to Test Year Revenues, Expenses

Once a test year is selected, the test year revenue and expense accounts and rate base are adjusted to reflect known and measurable changes so the test year totals will accurately reflect anticipated amounts for the future period when rates will be in effect. There are generally three types of adjustments: (1) normalizing adjustments made for unusual occurrences, like one-time events or extreme weather conditions, so they do not unduly affect the test year; (2) annualizing adjustments made for events that occurred at some point in the test year to average their effect as if they had been in existence during the entire year; and (3) known and measurable adjustments made to include events that are certain to occur outside the test year but will continue in the future, provided that the effect on the Company's income and expenses can be measured with reasonable certainty.

In this case some of the Company's proposed adjustments to test year revenues and expenses are uncontested including Post-Retirement Benefits other than Pension ("PBOP"), Employee Tuition Benefits, Customer Billing, Safety Expenses, unadjusted Operation and Maintenance expense, and the Gross Revenue Conversion Factor ("GRCF"). The Commission considers the contested adjustments below.

A. Revenue Adjustment

1. Weather Usage Adjustment

Staff proposes a revenue adjustment based on the Company's calculation of weather usage and the predicted normal residential consumption for the year 2022. Tr. vol. III, 859. Staff argues that the Company erred in its calculations by predicting normal residential consumption for the year 2023 instead of 2022. *Id.* at 862. Staff contends that the Company's approach extrapolates outside the actual data set and uses a year that does not match Staff's test year. *Id.*

Micron also testified that the Company's residential sales forecast underestimates normalized sales and results in an understated and unreasonable projection of residential sales in the test year. *Id.* at 984-86. The Company argues that its calculations are correct. Tr. vol. II, 625-26.

Having reviewed the record, the Commission finds it fair, just, and reasonable to adopt Staff's calculation of the predicted normal residential consumption for the year 2022, and the resulting adjustment of $738,348 (including the meter error rebilling adjustment below) to the Company's test year revenues at present rates.

2. Meter Error Rebilling

Staff proposes a revenue adjustment related to rebilling that occurred after the 2022 test year but is a result of inaccurate meter readings that occurred from July 2022 through January 2023. Tr. vol. III, 856. The adjustment represents rebilled revenue that was not included in the 2022 Test Year Booked Values. *Id.* The Company agrees that the Commission should use the most up-to-date information concerning the meter error rebilling in calculating the revenue at present rates. Tr. vol. II, 638.

The Commission finds the most up-to-date number of rebills due to meter reading errors to be 1,810. Therefore, the Commission applies an associate adjustment to the calculation of test year revenues at present rates.

B. Expense Adjustments

1. Payroll Expense Adjustments

The Commission finds it fair, just, and reasonable to reduce the Company's payroll expense by a total of $635,883 as set forth below.

a. Unfilled Positions, Stand-By Pay, and Overtime

Staff proposes an adjustment to remove four employee positions that had not been filled by Staff's test year cut-off date of December 31, 2022. Tr. vol. III, 731. Similarly, Staff proposes to remove the Company's proposed pro forma 2023 increase in the Company's calculation of Stand-By Pay. *Id.* at 734. Staff also proposes to remove the Company's Overtime adjustment arguing that it is an estimate and is not known and measurable, and the Company's proposed addition of 15 new employees should decrease the amount of overtime hours incurred during the year and thus decrease total overtime expense. *Id* at 740.

Micron proposes removing all unfilled positions because the Company has not justified the additional employees or explained why they are required. *Id.* at 981.

The Company argues that all employee positions will be filled, and the last employee start date will be in April 2023, before the conclusion of this case and the effective date of new tariff rates. Tr. vol. II, 168. The Company also contends that Overtime and Stand-By pay rates are identified in the collective bargaining unit agreement and follow the established rates of pay. Tr. vol. II, 171.

Having reviewed the record, the Commission notes the rapid growth in the Company's employee count and the uncertainty that the added positions will remain filled. While Micron's contention that the Company has not justified the new positions has merit, we decline to disallow the positions that have been filled by December 31, 2022. We do have concern with the Company adding numerous positions in a test year prior to filing a general rate case, and generally believe that new positions should be added gradually. In this case, the Commission finds it fair, just, and reasonable to exclude the four unfilled positions corresponding to the test year cut-off date of December 31, 2022. We note that the wages and associated payroll expense for each new employee added in 2022 has been captured in the revenue requirement at an annualized amount, ensuring the Company with adequate funds to cover payroll expenses for all employees of the Company on December 31, 2022. The Commission also excludes the Company's pro forma adjustments to Stand-By and Overtime pay in this case as not known and measurable.

b. Incentive Pay

Staff proposes to remove the Company's incentive pay from the revenue requirement. Staff argues that the Company: (1) already compensates its employees with a base salary and additional benefits; (2) that short-term incentive plans ("STEP") vary from year to year and are speculative; and (3) that Incentive Plans are self-funding. Tr. vol. III, 734-36.

The Company represents that the Incentive Programs are based on employee performance as it relates to achievement of specific objectives, as well as Company performance, both in terms of safety and financial results. Tr. vol. II, 172. The Company argues that the 2022 objectives and achievements have been evaluated for non-bargaining employees and the Incentive Plan payments based on achieving those employee goals and Company results are paid in March 2023. *Id.* The Company represents that for non-bargaining employees performance ratings consist of 25% individual objective performance and 75% Veolia Values performance (Respect, Customer Focus, Solidarity, and Innovation). *Id.* at 171.

Based upon the record before it, the Commission cannot find that the amount the Company expended on employee incentive pay in this case is reasonable. The Commission has no basis to quantify how Veolia Values directly translates to customer benefits, nor the extent to which an employee's personal goals and objectives improve the service provided to customers. When Veolia can demonstrate that the metrics and criteria of its Incentive Program are transparent and readily able to be reviewed, and provide a discernible customer benefit, the Commission will consider including incentive payments for recovery in rates. Portions of incentive plans that provide benefits to shareholders will continue to be funded by shareholders. The Company retains the burden to show that the wages it pays are fair and reasonable for the territory in which is serves. Thus, the Commission finds it fair, just, and reasonable to exclude the Company's incentive payments.

c. 2023 Pay Increases

In its Application, the Company adjusted its historical test year payroll to include a 4% wage increase for non-bargaining unit employees and a 2.75% wage increase for bargaining unit employees expected to occur on April 1, 2023. Tr. vol. II, 168-71. Staff proposes to remove the Company's pro forma 2023 pay increases in keeping with a December 31, 2022, test year cut-off date. Tr. vol. II, 733-34.

In response, the Company argues that bargaining unit employees contract reflects a 2.75% increase in bargaining unit wages effective April 1, 2023, and that the overall non-bargaining unit 2022 performance rating completed in March 2023 resulted in a wage increase of 3.6% with an effective date of April 1, 2023. Tr. vol. II, 168-70.

The Commission finds it fair, just, and reasonable to approve the Company's requested adjustment for a wage increase of 3.6% for non-bargaining unit employees and a 2.75% increase to bargaining unit employees, as adjusted by the Commission's above approved adjustment removing the four unfilled positions.

2. Workers' Compensation

Workers' compensation is based on a percentage of payroll. As the payroll increases, so does workers' compensation insurance. Staff and the Company agree on a percentage amount of 1.004%. The Commission finds it fair, just, and reasonable to reduce workers' compensation by $9,645 in conformity with the Commission's payroll decisions above and the calculation of the total gross payroll amount.

3. Healthcare Insurance

The Commission finds it fair, just, and reasonable to increase Healthcare Insurance by $240,439 in conformity with the Commission's adjustments to payroll expenses to include the additional positions filled during 2022.

4. Employee 401k

Staff proposes that the Company recover its actual 401(k) Match expense incurred in 2022. Tr. Vol. III, 747. The Company argues that the 401(k) amount should be based on the Company's rebuttal gross payroll amount, less incentives. Tr. Vol. II, 232-33.

Consistent with our prior Orders, the Commission finds it fair, just, and reasonable to use actual test year contributions to calculate the 401k contribution adjustment. The Company's 401(k) plan allows employees to cease or commence payroll deductions at any time, either ending or creating the Company's responsibility to make a matching contribution. With vacant positions, employee turnover, and the unknown elections of each employee to commence or cease deductions, pro forma adjustments to the test year data are not known and measurable. Thus, the Company's 401k expense is reduced by $44,890 in conformity with the Commission's above decisions using a calendar year 2022 test year.

5. Fringe Benefits

The Fringe Benefits allocation incorporates payroll taxes, workers' compensation, pension service cost, PBOP service cost, Group Health & Life, 401k, and Other Employee benefits to calculate the percentage of labor charged to capital projects. Staff and the intervening parties do not object to the formulaic method used by the Company to calculate the Fringe Benefit allocation. The Commission finds it fair, just, and reasonable to reduce the Company's Fringe Benefits by $41,646 in conformity with the Commission's decisions on the previously discussed payroll adjustments.

6. Payroll Taxes

The Commission finds it fair, just, and reasonable to reduce the Company's Payroll Taxes by $74,381 in conformity with the Commission's decisions herein.

7. Vehicle Allocation

The Commission finds it fair, just, and reasonable to reduce the Company's Vehicle Allocation expense by a total of $167,893 as set forth below.

a. Mechanic Pay Increase

The Commission finds it fair, just, and reasonable to allow an adjustment for 2023 pay increase for the Company Mechanic in conformity with the Commission's decision to include a 3.6% wage increase for non-bargaining unit employees in 2023.

b. Vehicle Lease Expense

Staff proposes excluding the vehicle lease expense for 22 vehicles that were included in the Company's case that had not been delivered to the Company prior the test year cut-off date of December 31, 2022. Tr. Vol. III, 754. Staff contends that it is not appropriate for the Company to include the lease expense in customer rates when no party had the opportunity to review the terms of the lease and need for the additional vehicles. *Id.*

The Company argues that since Staff's onsite audit in January of 2023, the Company has received 15 of the new leased vehicles, and the Company has worked with local Kendall Ford of Meridian dealership to secure the other 7 vehicles, four of which have arrived, and the other three are confirmed by the dealership to arrive in mid-April. Tr. vol. II, 236-37.

In keeping with the chosen test year and our preference that the parties have the opportunity to review and evaluate expenses prior to presenting their case, the Commission finds it fair, just, and reasonable to adopt Staff's adjustment to vehicle allocation expense with respect to leased vehicles that were not in the Company's possession within the selected test year.

c. Fuel

i. Fuel Cost

Staff argues that the Company's fuel cost estimates may be overstated and not reflective of the entire test year. Staff proposes fuel costs using the average AAA prices for regular and diesel fuel on January 30, 2023. Tr. Vol. III, 754-55. In rebuttal, the Company argues that given the volatility in fuel prices the Company proposes to use an updated average price of regular fuel of \$3.792 and \$4.513 for diesel fuel as of March 6, 2023, per AAA "Boise City" prices. Tr. Vol. II, 237-38.

The Commission finds it fair, just, and reasonable to calculate the Company's fuel cost adjustment using an updated average price of regular fuel of \$3.72 and \$4 for diesel fuel as of April 17, 2023.

ii. Fuel Consumption

Staff proposes removing the additional estimated 5.5% increase in fuel consumption from the Company's fuel consumption adjustment. Tr. Vol. III, 754-55. Staff argues that the Company's projected fuel consumption is not a known and measurable, as fuel consumption can vary from year to year, and it would be impossible to predict the number of gallons of fuel consumed in any given year. *Id.* The Company proposes to use actual fuel consumed for the 12-month period ending February 28, 2023. Tr. Vol. II, 238.

The Commission finds it fair, just, and reasonable to calculate the Company's fuel consumption adjustment without pro forma adjustments using actual fuel consumed for calendar year test year ending December 31, 2022. These amounts were provided to Staff and parties to review prior to the presentation of their cases in direct testimony.

d. Vehicle Materials, Maintenance, 3% Inflation

Staff proposes removing the Company's inflation adjustment to its vehicle materials and maintenance adjustment. Tr. Vol. III, 755-57. Staff argues that it has historically opposed inflation adjustments because they are not known and measurable. *Id.* The Company argues that the impact of inflation during 2022 was known and measurable as 2022 year-end material and maintenance costs totaled \$258,557. Tr. Vol. II, 239-40. The Company represents that this is an increase of

$42,487 over the as-filed historic test year amount of $216,070 which included the 3% inflation projection. *Id.* The Company does not propose to increase vehicle expenses by the actual 2022 year-end amount but stands by its as filed position of $216,070 which includes a 3% inflation increase. *Id.*

The Commission continues to find that inflation adjustments or other escalation adjustments based on estimates are not known and measurable. Therefore, we find it fair, just, and reasonable to exclude the Company's 3% inflation adjustment to its vehicle materials and maintenance adjustment.

8. Advertising Expense

Staff proposes removing the Company's pro forma cost adjustment for printing Consumer Confidence Reports ("CCRs") that the Company physically mails to its customers. Tr. Vol. III, 747-61. Staff argues that the Company is not required to provide a physical copy, rather, the Company is only required to make the CCRs available to customers. *Id.*

The Company argues that important and regulatory required information should be mailed to all customers. Tr. Vol. II, 234-35. The Company represents that it will continue to provide notification via our Facebook and Twitter pages, a digital banner ad on IdahoStatesman.com with a link to a sponsored news article about the CCR, and a bill message for customers who receive their statement on paper or electronically. *Id.* The Company testified that all forms of notification let customers know how to find the CCR on its website; however, the printed mailer is the version the Company feels is the most effective. *Id.*

The Commission is not persuaded by the Company's arguments that customers are more likely to read the CCRs when a copy is received by mail. The Company provides several methods of notification to customers regarding the whereabouts of the report, and we encourage the Company to continue to notify customers of the report in a cost-efficient manner. The Commission finds it fair, just, and reasonable to remove the unnecessary expense for printing CCRs as the Company is not required to provide physical copies to its customers. This reduces the Company's advertising expenses by $30,000.

9. Office Expense-Cityworks License and CCR Postage

Staff proposes removing the cost of four Cityworks licenses corresponding to the four unfilled employee positions at Staff's calendar year test year ending December 31, 2022. Tr. Vol. III, 757-59. Staff also proposes removing the costs associated with physically mailing CCRs to customers. *Id.*

As the Commission has already excluded the unfilled employee positions from the Company's payroll adjustments, and the Commission has also removed the costs to physically print the CCRs, the Commission finds it fair, just, and reasonable to removing the cost of four Cityworks licenses and the costs associated with physically mailing CCRs to customers. This adjustment reduces the Company's office expenses by $27,544.

10. Shared Management & Services ("M&S") Fees

The Commission finds it fair, just, and reasonable to reduce the Company's Shared M&S fees by a total of $161,101 as set forth below.

a. Return on Shared IT Assets

Staff proposes removing the return on shared IT assets because the Company is including a return on the shared M&S IT assets at the Company's requested pre-tax rate of return of 9.85%. Tr. Vol. III, 776-79. Staff is concerned that the parent company is attempting to include additional profits from its allocated charges to its subsidiary. *Id.*

The Company argues that for ratemaking purposes, the Company is requesting that a return be allowed on the overall investment made to serve its utilities customers including Idaho. Tr. Vol. II, 686-89. The Company states that the intention is that the return be consistent with that ultimately allowed by the Commission in this proceeding. *Id.* If the Commission allows a return different than that proposed by the Company, an adjustment should be made to the return amount consistent with that decision. *Id.*

The Commission finds it fair, just, and reasonable to include a return on shared IT assets at a rate consistent with this Order.

b. Depreciation Expenses

Staff proposes adjusting the shared M&S IT assets depreciation expenses because the Company uses depreciation rates that are not approved by the Commission, and the Company adds a pro forma adjustment to the depreciation expenses out to March 2023. Tr. Vol. III, 777-78.

The Company argues that under its current methodology, capital expenditures, generally related to information technology are recorded on the VWM&S balance sheet and the depreciation expense on these assets is allocated to the operating companies based upon the three-factor formula as a part of VWM&S charges. Tr. Vol. II, 686-89. The Company represents that the carrying costs associated with assets are calculated and recovered from the utility customers who receive the benefit of the assets, and the carrying costs are calculated utilizing the capital structure, debt and equity rates included in the rate case filing. *Id.*

The Commission finds that all depreciation expenses must be calculated using rates approved by this Commission. It is unreasonable to allow recovery of depreciation expense that is based on rates that have not been reviewed by Staff and the parties nor approved by the Commission. The Commission finds it fair, just, and reasonable to include depreciation expenses at a rate approved by the Commission and without pro forma adjustments.

c. Legal and HR Wages

Staff proposes removing the wages for four VWM&S attorneys that do not work in Idaho's jurisdiction. Tr. Vol. III, 780-81. Staff also recommends decreasing M&S fees to account for four HR employees that are not doing work on the regulated side of the parent company. *Id.*

The Company argues that there are 10 VWM&S employees in the legal department that provide services that benefit Idaho. Tr. Vol. II, 697-98. Three provide services to the utilities while 7 provide services to the utilities as well as other Veolia business units. *Id.* The Company contends that there are 12 VWM&S employees in the HR department that provide services benefiting the Company. *Id.* at 703. Two provide services to the utilities while 10 provide services to the utilities as well as other VWM&S business units. *Id.*

The Company represents that approximately 9.5% of the costs of the "utility only" employees are allocated to Idaho while approximately 7.7% of the employee costs that provide services to all business units to which VWM&S provides services, including the utilities, are allocated to Idaho. *Id.*

Having reviewed the record, the Commission cannot find sufficient evidence to allocate the expenses associated with the Company's representation of work done for the benefit of Idaho customers. The Commission finds it fair, just, and reasonable to adopt Staff's calculations and adjustments with respect to Legal and HR wages.

d. COO Wages, 2023 Corporate Salary Increase, Executive Training, Pro forma Insurance Premium, and Board of Directors' Compensation

Staff proposes removing the Company's wage adjustment for the COO. Tr. Vol. III, 781. Staff argues that the COO does not benefit Idaho ratepayers but supports the board of directors and helps the parent company earn a profit for shareholders. *Id.* Similarly, Staff proposes removing the 2023 salary increase for corporate employees, the expenses associated with executive training and travel, pro forma Insurance Premium, and Board of Directors' compensation. *Id.* at 781-83.

The Commission has already determined an appropriate adjustment for the Company's 2023 wage increases, and the Commission finds that 2023 M&S corporate salary increases should be similarly treated. With respect to COO wages, executive training, pro forma Insurance Premium, and Board of Directors' compensation, the Commission once again cannot find sufficient evidence to fully allocate the Company's claimed expenses to work done for the benefit of Idaho customers. However, the Commission believes that in this case some portion of the expenses should be allocated to Idaho. Therefore, the Commission finds it fair, just, and reasonable to apply a 50% reduction to the amounts requested by the Company.

11. General Insurance, and Injuries and Damages

Staff proposes using a three-year average of $206,119 compared to the Company's two-year average of $242,524 in calculating general insurance. Tr. Vol. III, 783-84. This adjustment provides the Company an additional $72,810 over the actual amounts incurred during 2022 to account for year-to-year volatility. *Id.* Staff proposes removing $28,947 from Injuries and Damages caused by employees errantly leaving valves open and vehicle crashes where the employee was at fault. *Id.* Staff argues that customers should not pay for injuries and damages that are due to negligence of the Company's employees. *Id.*

The Company accepts Staff's proposal for a three-year average calculation for general insurance; however, the Company disagrees with the exclusion of injuries and damages associated with Company negligence. Tr. Vol. II, 184-87. The Company argues that insurance is a valid expense regardless of the cause. *Id.*

The Commission finds it fair, just, and reasonable to approve using a three-year average in calculating general insurance; however, the Commission excludes those expense for injuries and damages associated with the Company's own actions and employees as identified by Staff. Customers should not bear the responsibility of paying for injuries and damages caused by agents of the Company. To do so would erode the Company's accountability for the actions of its employees.

12. Cost of Service Study ("COSS") and Load Study

Staff proposes removing the expense associated with the COSS and Load Study. Tr. Vol. III, 870-73. Staff argues that the Load Study did not perform a robust analysis to verify that the current classes or any other potential classes are the appropriate classes. *Id.* Staff contends that the purpose of determining appropriate classes was identified in the Stipulation authorized in Case No. SUZ-W-20-02 through Commission Order No. 35030. *Id.*

Order No. 35030 provides in relevant part:

> **3. <u>Future load study</u>**
>
> The Company agreed to complete a load study to "provide calculated max-day and max-hour factors for the total system as well as **by appropriate customer class**." *Id*. at 6. The Company will work with interested parties to take input on **load study components including "customer class definitions, sampling methodologies from those classes, and data sources."** *Id*. The Company would commence these discussions soon after the final decision in this docket and will finish within 12 months.

Order No. 35030 at 4 (emphasis added).

Staff argues that the Load Study was not performed in a manner that makes it used and useful to inform the COSS. Tr. Vol. III, 870-73. Staff testified that to make it useful, the Load Study should have identified the appropriate classes based on data collected during the Load Study. *Id.* Because the Load Study did not identify potential classes prior to data collection, differences in demand and consumption patterns of potential customer classes could not be determined. *Id.* As a result, the values used from the Load Study and the results of the COSS are not useful. *Id.*

The Company argues that the Company's COSS and Load Study was used and useful because using AMI data, the Load Study identifies how typical water utility customer classes use the system; therefore, if customers are "grouped" incorrectly, their pattern of behavior will create outliers in the data. Tr. Vol. II, 468-69. Further, the Company argues that collecting the data that Staff is requesting would likely require significant costs. *Id.* at 472-73.

Having reviewed the record, the arguments of the parties, and all submitted materials, the Commission finds it fair, just, and reasonable to remove the Company's COSS and Load Study expenses. Specifically, the Commission notes its previous Order No. 35030 authorizing a stipulation in which the Company agreed to conduct a Load Study to collect data "by appropriate customer class" and to take input from interested parties on Load Study components including "customer class definitions, sampling methodologies from those classes, and data sources." Order No. 35030 at 4. However, the record shows that the Company did not consider new sampling methodologies, customer class definitions, nor data sources in its analysis. Rather, the Company collected and analyzed its data only in comparison to "typical water utility customer classes" and relied upon its preconceived assumptions as to the correctness of those typical classes.

13. Rate Case Amortization Expense, Intervenor Funding

Staff proposes removing the Company's expense adjustment for the current rate case intervenor funding, and to change the amortization timeframe for rate case expenses from two years to four years. Tr. Vol. III, 817-20.

The Company agrees with removing intervenor funding; however, the Company argues that using a 2-year amortization period will ensure that the costs are recovered without adding the burden of unamortized expenses on the rates in the following rate case. Tr. Vol. II, 604-06.

Based on the particular facts of this case, including the frequency of rate case filings the contested issues the amounts in controversy, the proportional differences in recommendations from the Company, Staff, and our review of the record and evidence presented on the issue, we find that a proper amortization period for the recovery of the Company's rate case expense is four years, which will provide the Company with timely recovery of the expenses incurred to process this case.

14. Tank Painting Amortization Expense

Staff proposes removing the Hidden Hollow tank painting deferral and amortization because the Hidden Hollow tank was not scheduled to be finished until March of 2023, after Staff's proposed test year. Tr. vol. III, 821-22.

The Company agrees with removing the costs related to the painting of Hidden Hollow tank interior; however, the Company argues that it will complete the painting of the interior of the Ustick tank prior to the end of March 31, 2023, and proposes adding $430,100 of tank painting costs as part of rate base and therefore within the proposed amortization expense. Tr. vol. II, 604.

In keeping with the chosen test year, the Commission finds it fair, just, and reasonable to adopt Staff's adjustment and exclude the Hidden Hollow tank painting deferral and amortization as outside of the selected test year.

15. Deferred Power Expense

Staff proposes using the actual expenses the Company has incurred through the year ended December 31, 2022, along with interest at the customer deposit rate. Tr. vol. III, 815-17. Staff also proposes a 4-year amortization period based on the average time between rate cases. *Id.*

The Company argues that its original proposal includes the actual deferred power expenses through June 30, 2022, including the related interest and a projected amount for the expected deferral of power expenses and accrued interest through March 31, 2023. Tr. vol. II, 600-04. The Company proposes using the actual deferred power expenses and accrued interest through

February 28, 2023, of $695,112 in its calculation of the test year deferred power amortization expense. *Id.* The Company believes that using a 2-year amortization period will ensure that the costs are recovered without adding the burden of unamortized expenses on the rates in the following rate case. *Id.*

In keeping with the chosen test year, the Commission finds it fair, just, and reasonable to adopt Staff's adjustment to deferred power expense. The Commission also finds that a proper amortization period for the recovery of the Company's deferred power expense is four years, which is consistent with the amortization period allowed for rate case expenses.

16. Miscellaneous Expenses

Staff proposes an adjustment to the Company's Miscellaneous Account to remove several expenses related to advertising, the chamber of commerce, and support for political candidates. Tr. vol. III, 762. The Company argues that Staff's proposal excludes $3,592 of costs for events such as the Company's Water Summit event and two Company open house events for engaging and educating customers. Tr. vol. II, 187-92. The Company contends that those types of expenses should be recoverable. *Id.*

The Commission finds it fair, just, and reasonable to adopt most of Staff's adjustments; however, the Commission finds that the Company should recover the costs and expenses associated with the Company's three engagement and education events.

17. Variable Expense due to Volume

The Commission finds it fair, just, and reasonable to calculate Power and Chemical expenses in conformity with the Commission's other determinations and decisions to normalize the Company's sales revenue.

18. Depreciation Adjustment for Test Year

Because Staff proposes removing all 2023 plant additions from rate base, Staff argues it is necessary to remove the depreciation expense associated with those capital projects, which reduces the Company's proposed depreciation expense by $546,459. Tr. vol. III, 935.

The Company argues that it is committed to completing projects as planned and should be allowed to include these projects in its rate base and depreciation expense calculated based on the plant projected to be in service as at the end of March 31, 2023. Tr. vol. II, 560-61.

In keeping with the chosen test year, the Commission finds it fair, just, and reasonable to remove the depreciation expense associated with those capital projects not completed by

December 31, 2022. The Company shall not recover depreciation expense associated with new plant investment that has not been reviewed and evaluated by Staff and the parties.

III. Rate Base

A. End of Year v. Average Monthly Average ("AMA")

Generally, there are two ways to value a Company's rate base: (1) using a terminal rate base which is the value of plant, net of any offsets, at a single point in time at the end of the year; or (2) calculating an average value of plant, net of any offsets, throughout the year.

Staff proposes to establish a revenue requirement for the Company using rate base levels based on the AMA from December 31, 2021, through December 31, 2022. Tr. vol. III, 923-24.

The Company argues that it uses a historical test period adjusted for known and measurable changes to coincide with when rates will be in effect. Tr. vol. II, 673-77. The Company contends that in an environment where the Company is making large capital investments, using the averaging of historical rate base method omits capital additions in-service when new rates will be in effect, and may decrease or deny the Company the opportunity to recover the value of investments made during this period. *Id.* The Company recommends that the Commission reconsider the old Orders relied on by Staff and consider the regulatory lag created, the mismatch in revenues to rate base, rate base growth, inflation, from a holistic standpoint and utilize a test year end rate base in this case. *Id.*

The Commission finds it fair, just, and reasonable to establish a revenue requirement for the Company using rate base levels based on the AMA from December 31, 2021, through December 31, 2022. The Commission continues to believe that including plant investment in the calculation of rate base as if it were in service the entire year creates a mismatch between test year revenue and expenses, and it is unreasonable to expect the Commission to allow full recovery of plant investment as if the plant has been in operation the full year without a corresponding adjustment to revenues and expenses.

B. Rate Base Adjustments

1. Working Capital

Staff proposes to remove working capital from the Company's rate base calculation. Tr. vol. III, 938-41. Staff notes that the Company used the 1/8 Method to calculate its working capital, and Staff contends that a utility the size of the Company should not be recovering its estimated working capital using such an elementary calculation. *Id.* Further, Staff argues that without an explicit showing that working capital was provided by shareholders rather than customers, utilities should not include working capital in rate base. *Id.*

The Company argues that it used an acceptable methodology to calculate working capital. Tr. vol. II, 673-77. However, the Company contends that if the Commission agrees with Staff regarding Cash Working Capital, the balance of Materials and Supplies and Prepayments $1,583,204 at December 31, 2022 or $1,555,760 as projected at March 31, 2023, should be included in rate base because if the Company had performed a lead/lag study to calculate working capital, these items would have been included as separate line items in rate base. *Id.*

Having reviewed the record, the arguments of the parties, and all submitted materials, the Commission finds it fair, just, and reasonable to remove working capital from the Company's rate base calculation. The Commission cannot find sufficient evidence in the record showing that working capital was provided by shareholders rather than customers.

2. Deferred Debits

When calculating the AMA rate base, Staff removed the short-term deferred debits that the Company included. Tr. vol. III, 934-35. The deferred debits consist of the Company's power cost deferrals, rate case expense deferrals, and deferrals for the payment of convenience fees. *Id.* Staff argues that because they are relatively short-term regulatory asset, the Commission has historically stated that the opportunity to recover expenses is sufficient and a return is unnecessary. *Id.* at 815-22.

The Company argues that the inclusion of the unamortized balance of the deferred power costs, deferred rate case expense, and deferred convenience fees in rate base should be similar to the rate base treatment that has been allowed for deferred Tank Painting Expenses and given an amortization period of 2 years. Tr. vol. II, 563.

Having reviewed the record, the arguments of the parties, and all submitted materials, the Commission finds it fair, just, and reasonable to adopt Staff's calculation of rate base adjustments and to exclude deferred debits. The Commission has not authorized the Company to include the deferred debits in rate base to earn a return. When authorization to defer expenses is granted, and no return is authorized, we direct the Company to exclude the regulatory assets from its net rate base calculations.

3. Tax Cuts and Jobs Acts ("TCJA") Federal Tax error

The Company and Staff agree on the application of the regulatory liability created by the TCJA which reduces rate base in this case, and the Commission finds that rate base shall be adjusted accordingly.

IV. Cost-Of-Service Study

A cost-of-service study is an imperfect tool for assigning system and service costs to customer classes. The Commission has previously recognized that cost-of-service modeling is not an exact science, and that while most generally accepted cost-of-service methods are based on similar principles, they may lead to disparate results and recommendations for class revenue allocation. Thus, the Commission has repeatedly emphasized that a cost-of-service study is not a perfect tool for assigning system and service costs to customer classes. Order No. 33757 at 27.

A. Company COSS and Load Study Results

The Company represents that for the test year ending March 31, 2023, the total revenue requirement reflects a 23.4% revenue increase. The Company argues that the COSS suggests that the overall average revenue increase by customer class would be:

- Residential – an increase of 27.5%
- Commercial – an increase of 21.8%
- Public Authority – an increase of 2.5%
- Private Fire – a decrease of 62.9%

Tr. vol. II, 463; Bui Ex. 14-1. With respect to the Load Study, the Company argues that the Load Study results indicate that the System maximum day ratios are consistent with the Company's ratios based on correlating the highest annual maximum water production day for the last ten years. Tr. vol. II, 461.

B. Staff Response

As noted above, Staff argues that the Load Study did not perform a robust analysis to verify that the current classes or any other potential classes are the appropriate classes. Tr. vol. III, 870-73. Staff argues that the purpose of determining appropriate classes was identified in the Stipulation authorized in Case No. SUZ-W-20-02 through Commission Order No. 35030.

Staff contends that the Load Study was not performed in a manner that makes it used and useful to inform the COSS, and to make it useful, the Load Study should have identified the appropriate classes based on data collected during the load study. Tr. vol. III, 870-73. Staff argues that because the Load Study did not identify potential classes prior to data collection, differences in demand and consumption patterns of potential customer classes could not be determined. *Id.* As a result, the values used from the Load Study and the results of the COSS are not useful. *Id.*

C. Micron Response

Micron argues that the Company's COSS follows the generally accepted Base-Extra Capacity cost allocation method, which is a reasonable approach. Tr. vol. III, 1150. However, Micron contends that the COSS needs to be modified to improve the accuracy of the measurement of its cost of providing service to each customer class. *Id.* Specifically, Micron argues that the Company's proposed revenue apportionment should be rejected, as it does not make a meaningful movement toward cost of service for each customer class and continues the interclass subsidies that have existed for years. *Id.*

V. Rate Design

Based upon its COSS, Load Study, and accompanying analysis, the Company's rate design reflects an across-the-board increase of 24.1% to Residential, Commercial, and Public Authority customers. The Company does not request any increase for Private Fire Service. Bui Ex. 14.1.

Based upon the lack of a useful COSS and Load Study, Staff proposes a uniform percentage increase across all rate components and customer classes. Tr. vol. III, 875-77. Staff argues that without the establishment of consumptive classes and a valid COSS study, it is impossible to fairly allocate the increase based on traditional cost causation principles. *Id.*

Micron proposes rates be established that account for a revenue apportionment where all classes are brought to cost of service in this case, subject to the limitation that no class receives an increase greater than 1.25x the system average increase, with any remaining revenue deficiency spread to classes that would receive a rate change below the system average, in proportion to each of the noncapped class's total cost of service. Tr. vol. III, 1150.

Having reviewed the record, the arguments of the parties, and all submitted materials, the Commission finds it fair, just, and reasonable to adopt Staff's rate design including an across-the-board increase for all customer classes including Private Fire Service. The Commission does not find the COSS and Load Study useful, and while the Commission agrees with Micron regarding the need for meaningful movement toward cost of service for each customer class, such movement shall have to wait until the Commission is given adequate information upon which to make such meaningful changes.

VI. Distribution System Improvement Charge ("DSIC")

A DSIC is a surcharge mechanism which allows for rate increases between general rate case proceedings that specifically relate to non-revenue producing investments to replace aging utility infrastructure.

The Company argues that the major benefits of these types of capital surcharges include enhanced service quality, accelerated pace of system improvements, high level of customer acceptance, smoothing of revenue increases to customers, reduction of water lost in the distribution system through leaks, long term viability of the water system, and support of economic development through increased investment and employment activity. Tr. vol. II, 658-60.

Staff recommends the Commission deny the Company's request for a DSIC mechanism. Tr. vol. III, 787-93. Staff supports the Company's work to maintain safe and reliable service by replacing or upgrading aging infrastructure; however, Staff argues that these costs are more appropriately reviewed and recovered through traditional ratemaking in general rate cases rather than through a bi-annual cost recovery mechanism as proposed by the Company. *Id.* Staff argues that the types of expenses the Company wishes to recover through the DSIC are known and predictable capital expenditures that can be planned well in advance, can be included for recovery in a general rate case, and the Company has the financial ability and access to capital to fund these projects between rate cases. *Id.* Micron also recommends the Commission reject the Company's proposed DSIC mechanism. Tr. vol. III, 1151.

Having reviewed the record, the arguments of the parties, and all submitted materials, the Commission finds it fair, just, and reasonable to deny the Company request for a DSIC mechanism. The Commission agrees with Staff in that the types of expenses the Company is trying to recover are known and predictable expenditures that are better suited for recovery in a general rates case. Further, the Commission is not persuaded by the Company's arguments that the Commission should provide incentives for the Company to make distribution system improvements that the Company is already duty bound to make to provide safe and adequate service to its customers.

VII. Other Company requests

In addition to the general rates issues, the Company proposes a revision to its Rules and Regulations Governing the Rendering of Water Service to reflect the name change from Suez Water Idaho Inc. to Veolia Water Idaho, Inc.; to eliminate 1¼-inch meters reference from the tariff; and to revise the service line connection from one-inch or smaller to two-inch or smaller according to NFPA 13D standards.

Having reviewed the record, the arguments of the parties, and all submitted materials, the Commission finds it fair, just, and reasonable to grant the Company's other requests.

ORDER

IT IS HEREBY ORDERED that the Company file tariffs and schedules in conformance with this Order, to be effective on May 1, 2023, for service rendered on and after that date. The authorized rates are set forth in Attachment B.

IT IS FURTHER ORDERED that the Company is authorized an overall ROR of 6.91%, and to recover an additional $2,756,227 in annual base revenues.

IT IS FURTHER ORDERED that the Company's request for a DSIC mechanism is denied.

IT IS FURTHER ORDERED that the Company may revise its Rules and Regulations Governing the Rendering of Water Service to reflect the name change from Suez Water Idaho Inc. to Veolia Water Idaho, Inc.

IT IS FURTHER ORDERED that the Company may eliminate the 1¼-inch meters reference from the Company's tariff; and may revise the service line connection from one-inch or smaller to two-inch or smaller according to NFPA 13D standards.

IT IS FURTHER ORDERED that the Company take such other actions as may be set forth in the body 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 upon this Order regarding 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 and 62-619.

///

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 28th day of April 2023.

ERIC ANDERSON, PRESIDENT

JOHN R. HAMMOND JR., COMMISSIONER

EDWARD LODGE, COMMISSIONER

ATTEST:

Jan Noriyuki
Commission Secretary

I:\Legal\WATER\VEO-W-22-02 rates\Orders\VEOW2202_FO_cb.docx

Commission Ordered Revenue Requirement Summary

Line No.	Description		Company Direct		Commission Order
1	Operating Revenues		$ 51,717,859		$ 52,456,207
2	Operation & Maintenance Expenses:				
3	Payroll		$ 7,661,608		$ 7,025,725
4	Workers Compensation		$ 116,207		$ 106,562
5	Pension Cash Contributions		$ 585,796		$ 585,796
6	Post-retirement Benefits Other than Pension (PBOP)		$ (523,756)		$ (577,900)
7	Employee Healthcare		$ 2,103,710		$ 2,344,149
8	Employee 401k		$ 456,431		$ 411,541
9	Other Employee Benefits - Tuition		$ 14,634		$ 9,273
10	Payroll Overheads (Fringe Benefits Allocation)		$ (1,466,411)		$ (1,508,057)
11	Purchased Water		$ 316,694		$ 316,694
12	Energy- Purchased Power and Other Utilities		$ 2,595,630		$ 2,595,630
13	Chemicals		$ 594,376		$ 594,376
14	Subcontractors		$ 830,455		$ 830,455
15	Customer Billing Expenses		$ 323,463		$ 324,074
16	Bad Debts		$ 305,063		$ 305,063
17	Materials		$ 306,324		$ 306,324
18	Vehicle Allocation		$ 1,025,350		$ 857,457
19	Office Expenses		$ 815,647		$ 788,103
20	Advertising Expense		$ 227,683		$ 197,683
21	Management & Service Fees		$ 4,566,635		$ 4,405,534
22	General Insurance		$ 242,524		$ 177,172
23	IPUC Fees		$ 103,177		$ 103,177
24	Safety		$ 195,406		$ 166,156
25	Amortization Expense - Deferred Rate Case		$ 202,923		$ 50,967
26	Amortization Expense - Deferred Pension		$ 23,218		$ 23,218
27	Amortization Expense - Deferred Tank Painting		$ 177,283		$ 154,783
28	Amortization of Excess Deferred Income Taxes		$ (200,000)		$ (200,000)
29	Amortization Expense - Deferred Power		$ 534,778		$ 264,073
30	AFUDC Equity Gross Up Amortization		$ 30,523		$ 30,523
31	Adjustment to Variable Expenses Due to Volume Normalization		$ (127,937)		$ (136,841)
32	Total Unadjusted Operating & Maintenance Expenses		$ 350,189		$ 361,916
33	Total Depreciation and Amortization		$ 10,929,675		$ 10,383,216
34	Ad Valorem		$ 2,145,032		$ 2,145,032
35	Payroll Taxes		$ 898,783		$ 824,402
36	Total Operating Expense				
37	Before Income Taxes		$ 36,361,115		$ 34,266,277
38	Income Taxes		$ 2,475,051		$ 3,304,448
39	Total Operating Expenses		$ 38,836,166		$ 37,570,725
40	Net Operating Income		$ 12,881,693		$ 14,885,482
41	Plant in Service:				
42	Gross Utility Plant in Service		$ 578,861,098		$ 551,849,764
43	Total Accumulated Depreciation and CIAC Amortization		$ (191,267,542)		$ (185,726,732)
44	Net Utility Plant in Service		$ 387,593,556		$ 366,123,032
45	Customer Advances for Construction		$ (3,797,814)		$ (3,853,268)
46	Contributions in Aid of Construction (net of amortization)		$ (112,913,720)		$ (112,545,711)
47	Utility Plant Acquistion Adjustment Net		$ 10,771,089		$ 10,808,444
48	Accumulated Deferred Income Taxes		$ (5,307,577)		$ (4,398,563)
49	Deferred Charges Included in Rate Base		$ 4,933,851		$ 3,363,566
50	Working Capital Allowance		$ 3,552,571		$ -
51	Regulatory Liability-New Federal Tax Law (TCJA)		$ (4,075,931)		$ (4,335,280)
52	Rate Base		$ 280,756,025		$ 255,162,220
53	Operating Income at Present Rates		$ 12,881,693		$ 14,885,482
54	Cost of Capital		7.77%		6.91%
55	Operating Income at Proposed Rates		$ 21,814,743		$ 17,631,709
56	Operating Income Deficiency		$ 8,933,050		$ 2,746,227
57	Gross Revenue Conversion Factor		1.3573		1.35445
58	Deficiency in Operating Revenue less Intervenor Funding		**$ 12,107,227**		**$ 3,701,726**
59	Percent Increase		**23.41%**		**7.06%**
60	**Total Revenue Requirement**		**$ 63,825,085**		**$ 56,157,933**
61	Capital Structure:				
62	Total Debt	44.43%		44.43%	
63	Cost of Debt	3.99%	1.77%	3.99%	1.77%
64	Total Equity	55.57%		55.57%	
65	Return on Equity	10.80%	6.00%	9.25%	5.14%
66	Total Cost of Capital		7.77%		6.91%

Attachment A
Order No. 35762
Case No. VEO-W-22-02

VEOLIA WATER IDAHO, INC.
Bi-Monthly

	Current	Company Proposed	Company % Increase	Commission Ordered	Commission % Increase
Residential					
5/8 Inch	22.96	28.48	24.05%	24.58	7.06%
3/4 Inch	22.96	28.48	24.05%	24.58	7.06%
1 Inch	29.35	36.41	24.05%	31.42	7.06%
1 1/2 Inch	50.21	62.29	24.05%	53.75	7.06%
2 Inch	77.92	96.66	24.05%	83.42	7.06%
Winter Usage	1.5959	1.9797	24.05%	1.7086	7.06%
Summer Usage					
Up to 3 CCF	1.5959	1.9797	24.05%	1.7086	7.06%
Over 3 CCF	2.0204	2.5063	24.05%	2.1630	7.06%
Commercial					
5/8 Inch	22.96	28.48	24.05%	24.58	7.06%
3/4 Inch	22.96	28.48	24.05%	24.58	7.06%
1 Inch	29.35	36.41	24.05%	31.42	7.06%
1 1/2 Inch	50.21	62.29	24.05%	53.75	7.06%
2 Inch	77.92	96.66	24.05%	83.42	7.06%
3 Inch	151.97	188.52	24.05%	162.70	7.06%
4 Inch	283.52	351.71	24.05%	303.54	7.06%
6 Inch	473.35	587.20	24.05%	506.77	7.06%
Temporary Meter Charge	25.00	31.01	24.05%	26.77	7.06%
Winter Usage	1.5959	1.9797	24.05%	1.7086	7.06%
Summer Usage					
Up to 3 CCF	1.5959	1.9797	24.05%	1.7086	7.06%
Over 3 CCF	2.0204	2.5063	24.05%	2.1630	7.06%
Public Authority					
5/8 Inch	22.96	28.48	24.05%	24.58	7.06%
3/4 Inch	22.96	28.48	24.05%	24.58	7.06%
1 Inch	29.35	36.41	24.05%	31.42	7.06%
1 1/2 Inch	50.21	62.29	24.05%	53.75	7.06%
2 Inch	77.92	96.66	24.05%	83.42	7.06%
3 Inch	151.97	188.52	24.05%	162.70	7.06%
Street Sweeping	#######	4,565.61	24.05%	3,940.24	7.06%
Winter Usage	1.5959	1.9797	24.05%	1.7086	7.06%
Summer Usage					
Up to 3 CCF	1.5959	1.9797	24.05%	1.7086	7.06%
Over 3 CCF	2.0204	2.5063	24.05%	2.1630	7.06%
Private Fire Lines					
3 Inch and smaller	40.48	40.48	0.00%	43.34	7.06%
4 Inch	61.36	61.36	0.00%	65.69	7.06%
6 Inch	152.39	152.39	0.00%	163.15	7.06%
8 Inch	250.43	250.43	0.00%	268.11	7.06%
10 Inch	390.54	390.54	0.00%	418.11	7.06%
12 Inch	584.98	584.98	0.00%	626.28	7.06%
Hydrants	24.56	24.56	0.00%	26.29	7.06%

VEOLIA WATER IDAHO, INC.
Existing Eagle Water Company Customers
Monthly

	Current	Company Proposed	Company % Increase	Commission Ordered	Commission % Increase
Residential					
5/8 Inch	6.70	8.31	24.05%	7.17	7.06%
3/4 Inch	6.70	8.31	24.05%	7.17	7.06%
1 Inch	8.56	10.62	24.05%	9.16	7.06%
1 1/2 Inch	14.64	18.16	24.05%	15.67	7.06%
2 Inch	22.73	28.20	24.05%	24.33	7.06%
Winter Usage	0.9309	1.1548	24.05%	0.9966	7.06%
Summer Usage					
Up to 3 CCF	0.9309	1.1548	24.05%	0.9966	7.06%
Over 3 CCF	1.1786	1.4621	24.05%	1.2618	7.06%
Commercial					
5/8 Inch	6.70	8.31	24.05%	7.17	7.06%
3/4 Inch	6.70	8.31	24.05%	7.17	7.06%
1 Inch	8.56	10.62	24.05%	9.16	7.06%
1 1/2 Inch	14.64	18.16	24.05%	15.67	7.06%
2 Inch	22.73	28.20	24.05%	24.33	7.06%
3 Inch	44.32	54.98	24.05%	47.45	7.06%
4 Inch	82.69	102.58	24.05%	88.53	7.06%
6 Inch	138.06	171.27	24.05%	147.81	7.06%
Winter Usage	0.9309	1.1548	24.05%	0.9966	7.06%
Summer Usage					
Up to 3 CCF	0.9309	1.1548	24.05%	0.9966	7.06%
Over 3 CCF	1.1786	1.4621	24.05%	1.2618	7.06%
Public Authority					
5/8 Inch	6.70	8.31	24.05%	7.17	7.06%
3/4 Inch	6.70	8.31	24.05%	7.17	7.06%
1 1/2 Inch	14.64	18.16	24.05%	15.67	7.06%
2 Inch	22.73	28.20	24.05%	24.33	7.06%
Winter Usage	0.9309	1.1548	24.05%	0.9966	7.06%
Summer Usage					
Up to 3 CCF	0.9309	1.1548	24.05%	0.9966	7.06%
Over 3 CCF	1.1786	1.4621	24.05%	1.2618	7.06%
Private Fire Lines					
3 Inch and smaller	11.81	11.81	0.00%	12.64	7.06%
4 Inch	17.90	17.90	0.00%	19.16	7.06%
6 Inch	44.45	44.45	0.00%	47.59	7.06%
8 Inch	73.04	73.04	0.00%	78.20	7.06%