

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF VALIANT IDAHO	)	CASE NO. VID-W-25-02
INC./TIC UTILITIES, LLC'S APPLICATION	)	
TO INCREASE ITS RATES AND CHARGES	)	ORDER NO. 36818
FOR WATER SERVICE IN THE STATE OF	)	
IDAHO	)	
	)	

On March 4, 2025, TIC Utilities, LLC, an entity affiliated with Valiant Idaho, Inc. ("Company"), applied to increase the rates and charges for the Company's water service ("Application"). The Company requests a July 1, 2025, effective date for the proposed rate increase.

On March 20, 2025, the Idaho Public Utilities Commission ("Commission") issued a Notice of Application and Notice of Intervention Deadline, setting a deadline for interested persons to intervene. Order No. 36520. The Commission also suspended the Company's proposed July 1, 2025, effective date for the proposed rate increase for 30 days and 5 months under *Idaho Code* § 61-622(4).

On June 9, 2025, the Commission issued a Notice of Modified Procedure, setting public comment and company reply deadlines. The Commission also set an in-person customer hearing and scheduled a virtual public workshop. Order No. 36632.

On August 6, 2025, Staff of the Idaho Public Utilities Commission ("Staff") filed comments to which the Company replied.

On August 14, 2025, the Commission held an in-person customer hearing in Sandpoint, Idaho. Various customers of the Company testified all in opposition to the proposed rate increase.

Having reviewed the record in this case, we issue this Final Order authorizing the Company to raise its rates as described below.

BACKGROUND

The Company is a Commission-regulated water corporation serving 317 residential and commercial customers near Sandpoint in Bonner County, Idaho. The Company serves customers with two wells and three storage reservoirs under Certificate of Public Convenience and Necessity No. 554. According to the Company, it initially acquired this water system through foreclosure.

THE APPLICATION

According to the Company, its water system required major investments to restore water service to existing homes and lots and to ensure capacity for serving future subdivisions. Accordingly, the Company seeks to increase the flat rate for unmetered individual residences from \$45.00 to \$150.00 per month, while the rate for improved residential lots will remain at \$45.00 per month. For metered residential service, a new charge of \$0.01 per gallon would apply to all consumption exceeding 7,500 gallons per month, where no charge currently exists. The Company asserts that the proposed rate increase is justified due to past operating losses and the lack of any return on equity for the plant currently in service. The Company requests a July 1, 2025, effective date for these new rates.

STAFF COMMENTS

After reviewing the Application, supporting documents, discovery responses, the Company's financial records, procedures, and internal controls, Staff recommended a total annual revenue requirement of \$201,869, an increase of \$36,623 or 22.1%. This recommended revenue requirement results from a capital structure made up entirely of equity, with an 11.0% return on equity applied to a net rate base of \$434,673.

I. System Description

The Company's water system consists of two wells with capacities of 378 and 279 gallons per minute ("GPM") that pump to a 225,000-gallon reservoir ("Moose Mountain") via two booster stations with small pressure tanks. A third booster station serves higher elevations.

The system delivers unmetered, treated water to 105 residential units. Treatment includes disinfection with chlorine, pretreatment with potassium permanganate, and filtration to remove iron and manganese. Pipes range from 2.5 to 12 inches in diameter and are made of ductile iron, steel, and PVC.

II. System Reliability

Staff's review indicated that the Company's water system can provide safe and reliable service. Staff reviewed recent sanitary surveys from the Idaho Department of Environmental Quality ("IDEQ") and found no outstanding issues or major deficiencies affecting system reliability. Additionally, the Commission received no customer complaints related to low water pressure or system reliability between 2021 and 2024.

A. Water Rights

Staff determined that the Company has sufficient water rights to meet customer demand. The Company holds water rights allowing a diversion rate of 2.86 cubic feet per second (1,283.568 GPM), exceeding its current maximum pumping capacity of 657 GPM.

B. Current Capacity and Demand

Based on the Company's facility plan, Staff determined that the system has sufficient pumping capacity to meet current average daily demand and maximum daily production, even with the largest well out of service. Actual consumption data is unavailable because the system lacks water meters. Thus, the facility plan did not include maximum daily or peak hourly demand estimates. Instead, it analyzed average daily production ("ADP"), maximum daily production ("MDP"), and peak hourly production. With the largest source offline, the current pumping capacity of the water system is 279 GPM, exceeding the current ADP (56 GPM), MDP (177 GPM), and average daily demand (38 GPM).

III. Revenue Requirement

As stated, Staff recommended a revenue requirement of \$201,869, based on an 11% return on equity and a total rate base of \$434,673. Staff's recommended adjustments to the Company's Application are discussed below.

A. Rate Base

Staff proposed a rate base of \$434,673, which is \$170,728 less than the Company's request. Much of the disparity between Staff's recommendation and the Application results from differences in how each party classifies some of the Company's investments in its water system.

1. Contributions in Aid of Construction ("CIAC")

Under IDAPA 31.36.01.102, capital invested in small water systems is presumed to be contributed capital, excluding it from rate base. In Case No. GSW-W-23-01, Gem State Water Company, LLC ("Gem State") requested Commission approval to purchase the Company's water system. In that case, the Commission found that Gem State had failed to overcome the presumption and excluded the plant from rate base. *See* Order No. 35971 at 6.

Staff believed that this prior finding does not prevent the issue from being reconsidered in this case. However, the rate base determination was not necessary to approve the sale, and neither TIC Utilities nor the current Company were party to that proceeding. The Company provided new information not considered in the previous case. This information indicates that all plant included

in the current application was installed after acquiring the system from VP Inc. and is used to serve both new and existing customers.

The Company also proposed a method to determine the proportion of lots that should count toward rate base by dividing the number of unsold lots by the total number of lots in the development. Because many lots were sold before the Company acquired the system and the proceeds could not be used to recover capital costs, the Company requests that 76.97% of the post-purchase plant be included in the rate base.

Staff agreed with the Company's proposed methodology in principle but disagreed with the inputs used in the calculation. Instead, Staff recommended using the total number of planned and platted lots as the denominator, and the number of lots that the current owner could not purchase and resell as the numerator.

Using this ratio, Staff recommended reducing Plant in Service by \$477,657 and Accumulated Amortization by \$130,956. Rather than recording this adjustment as CIAC, Staff proposed reducing the Plant-in-Service ("PIS") accounts directly. This simplifies future regulatory filings and accounting by eliminating the need to track CIAC-related assets and their amortization. Accordingly, Staff also reduced Depreciation Expense by \$27,708 to reflect that plant funded by CIAC should not be depreciated.

2. Proforma PIS

Staff reviewed the capital projects listed in the Application, focusing on whether each project is used and useful, and whether the costs are known and measurable. Based on this review, Staff recommended removing two amounts from PIS. First, the Company requested \$40,000 for its IDEQ Facilities Plan, but actual costs through June 2025 total \$35,889. Because future costs are unknown, Staff recommended removing the \$4,111 difference from rate base.

Second, The Company requested \$43,615.55 for meters and installation, based on orders for 100 meters and related software.¹ However, Staff found the order included an 8.9% sales tax, while the actual receipt used the correct 6.0% tax. Staff recalculated the cost to \$42,558.61 and recommends excluding the \$1,057 difference from the rate base.

¹ Staff noted that the Company currently serves 100 customers but has installed only 50 meters. Although the meters are useful, their full benefits depend on all customers having meters to enable volumetric billing and encourage water conservation. Staff urged the Company to install meters for all customers as soon as possible.

3. Depreciation for Proforma Plant

The Company included new meters and a water facility plan in its proforma plant but did not include depreciation expense for these additions. Staff recommended a 40-year lifespan for meters, based on National Association of Regulatory Utility Commissioners guidelines, and a 10-year lifespan for the facility plan. This resulted in a total depreciation expense increase of \$5,090.

B. Revenues

The Company included only three quarters of actual revenues in its filing due to missing data after switching billing providers. To address this, Staff multiplied the total number of customers by the monthly rate for a full year, resulting in an annual revenue of \$165,240. This is \$37,657 higher than the amount reported in the Application.

C. Expenses

Staff proposed total expenses of \$117,153, which is \$116,783 less than the amount in the Application. Staff's specific expense adjustments are detailed below.

1. PUC Fees

The Application omitted a PUC assessment expense because the Company only recently became regulated and has yet to pay this fee. Staff applied the Commission assessment rate of 0.2223%, as required by Order No. 36545, to the normalized revenue described above. This adds \$368 to the Company's expenses.

2. Salaries

The Company included a proforma salary of \$48,000 for the owner's management without formal salary or time records. The owner reported spending 10 to 15 hours a week managing the utility. Staff agreed that the owner should be compensated and used U.S. Bureau of Labor Statistics ("BLS") data for "Managers, All Other" to estimate a fair salary range of \$22,037 to \$38,290. Staff recommended a midpoint salary of \$30,000, reducing the Company's proposed salary expense by \$18,000.

3. Reclassification of E3 Consulting ("E3") Expenses

The Company contracts with E3 for general water operations, including operator services, system and water testing, and chemical purchases. After reviewing 2024 invoices, Staff found that some expenses related to E3 should be reclassified. Specifically, \$3,740 was moved to Contract Services—Water Testing, and \$10,168 to Chemicals Expense. These reclassifications do not affect the overall revenue requirement but are reflected in the Chemical and Lab Adjustments.

4. E3 Wastewater Expenses

Staff identified \$1,960 in wastewater-related expenses in E3 invoices. Staff recommended removing these costs.

5. Sewer Expenses

During discovery, Staff discovered that \$30,592 in sewer expenses were mistakenly included in the Company's expense records. The Company acknowledged this error. Staff recommended removing these expenses, as they are unrelated to regulated water utility operations.

6. Chemical Adjustment

Staff calculated the average cost per gallon for the 12.5% Sodium Hypochlorite the Company uses to treat water over 2021-24 and applied it to the average annual chlorine usage to estimate chemical expenses. Based on this calculation, Staff recommended including \$3,944 in chemical expenses in the revenue requirement, reducing the Company's proposed amount by \$6,224.

7. Annualizing Water Testing

The Company follows a three-year water testing cycle. By averaging the total testing costs over three years, Staff calculated an annualized expense of \$1,338. Staff recommended this amount be included as the annual water testing cost, reducing the Company's request by \$2,402.

8. Attorney Fees for MSTB Law

The Company paid \$9,247 in attorney fees to MSTB Law for legal work related to selling the utility to the homeowners' association made up of its customers and converting to a planned unit development. As these services did not directly benefit customers, Staff recommended removing these fees from Contract Services—Professional.

9. Rate Case Expenses

The Company included fees paid to McConnell Wagner Sykes & Stacey for rate case and regulatory work as an annual expense. Despite agreeing that these costs are reasonable, Staff asserted that they should not be recovered annually. Rather, Staff recommended amortizing them over three years. As a result, \$3,812 would be removed from Contract Services—Professional, and \$1,271 included under Rate Case Amortization, resulting in a net expense reduction of \$2,541.

10. Electricity Adjustment

Staff recommended including an annualized electricity expense of \$9,794 in the revenue requirement, calculated from the cost per gallon of electricity and applying it to the normalized annual water production from November 2021 to October 2024.²

11. Reclassification of Water Facility Plan Expenses

The Company included costs for a water facilities plan under Materials & Supplies—Operation & Maintenance. Because the plan has a useful life beyond one year, Staff asserted that these costs should be capitalized and recovered through depreciation. Since the project is already included in proforma plant, Staff removed the related O&M expenses to avoid double-counting, reducing expenses by \$33,309.

D. Rate of Return

The Company proposed an entirely common equity capital structure, with no approved or reported long-term debt. Despite considering imputing debt to balance the capital structure, Staff believed that estimated borrowing costs, like the SBA 7(a) program, would likely exceed or match the recommended return on equity. Consequently, Staff accepted the 100% equity structure for this case.

The Company also requested a 12% Return on Equity (“ROE”) but based on recent Commission decisions for small water utilities (Order Nos. 33658, 33910, 35978, and 36587), Staff recommended an 11% ROE. Applying this to Staff’s proposed rate base of \$434,673 results in a return requirement of \$47,814, \$24,834 less than the Company requested.

E. Taxes and Net to Gross Multiplier

Staff recommended using the current 5.3% income tax rate, instead of the 5.8% rate the Company used. Additionally, after discovering that the Application used an outdated Commission assessment rate of 0.1982%, Staff recommended using the current rate of 0.2223%, set in Order No. 36545. Updating the Net to Gross multiplier to reflect the new PUC assessment and state tax rates and applying it to Staff’s proposed revenue deficiency results in a total tax amount of \$9,175—\$16,509 less than the Company’s original filing.

² Staff excluded production data from November 2021 to October 2022, as it appeared to be an outlier due to seasonal usage during the COVID-19 pandemic and customer growth.

IV. Rate Design

The Company currently charges all customers a \$45 monthly fixed fee for unmetered water service. There are 110 “flowing” customers (with homes) and 207 “non-flowing” customers, all billed the same charge.

The Company proposed adding a \$0.01 per gallon commodity rate for usage above 7,500 gallons and increasing the monthly customer charge. Despite supporting metered rates, Staff did not recommend a commodity rate now because 50 of the Company’s 110 flowing customers do not have meters. Charging some customers based on usage while others pay a flat rate could be unfair.

For fixed charges, the Company proposed \$150 per month for flowing customers and keeping \$45 for non-flowing customers. Currently, 65% of revenue comes from non-flowing customers, but prior Commission Orders (*e.g.*, Order No. 36313) state only customers actually receiving service should pay, meaning non-flowing customers should not be charged. Staff considered this and evaluated options to collect revenue solely from flowing customers or with reduced charges for non-flowing customers. The following Table 3 outlines these alternatives:

Table No. 3: Bill Impacts of Rate Designs Using Staff's Revenue Requirement

Option	Customer	Current Bill	Proposed Bill	\$ Change	% Change
A.	Flowing, ¾"and 1"	\$45	\$149	\$104	231%
	Non-Flowing	\$45	\$0	-\$45	-100%
B.	Flowing, ¾"and 1"	\$45	\$67	\$22	49%
	Non-Flowing	\$45	\$45	\$0	0%
C.	Flowing, ¾"and 1"	\$45	\$94	\$49	109%
	Non-Flowing	\$45	\$30	-\$15	-33%
D.	Flowing, ¾"and 1"	\$45	\$121.50	\$76.50	170%
	Non-Flowing	\$45	\$15	-\$30	-67%

Staff recommended Rate Option C, which sets a \$30 monthly charge for non-flowing customers, believing it balances rate shock and gradualism. Eliminating the non-flowing charge entirely, as in (Option A, would cause flowing customers’ bills to jump 231%. Option C limits the increase to 109%. The Company must also maintain water rights to meet fire flow requirements for non-flowing lots, so it will incur costs to serve them. Staff also learned that the Company serves Idaho Club’s golf course clubhouse via a 2-inch connection. Staff recommended a \$302 monthly charge for this connection.

V. Meter Reading

The Company currently has 50 metered connections. Staff supported this effort because metered service benefits both the Company and its customers. Staff recommended the Commission direct the Company to start reading these meters to gather consumption data. This data will help design a fair commodity rate in future rate cases, improve cost recovery, reduce cross-subsidies, better manage seasonal usage, and discover leaks.

If monthly readings are not infeasible, Staff believed less frequent readings, like those in the following Table No. 4, are reasonable:

Table No. 4 – Staff Proposed Meter Reading Schedule

Time Period	Purpose
June-September Read Monthly	Obtain consumption data during peak occupancy and water use.
October-May Read Once	Obtain consumption data during winter off-peak season.

VI. Non-Recurring Charges

A. Hook-up Fees

The Company proposed a \$2,500 hookup charge for new customers to connect to its water system. Staff found this unreasonable and recommended modifying the Company's Tariff Schedule 3—Non-Recurring Charges as shown in the following Table No. 5:

Table No. 5: Staff Proposed New Hookup Charges

Category	Meter and Materials Cost	Installation and Inspection Charge	Total Hookup Charges
Meter Installation and Turn on Service	\$500	\$100	\$600

Staff also suggested the Company inspect connections during and after construction up to the pit setter. Additionally, the Company should obtain and retain detailed contractor quotes, invoices, and cost records for future hookups, including labor (hours and rates), materials (meters and components), and equipment (hours and rates).

According to Staff, the Company has not previously charged hookup fees for water service and therefore cannot provide detailed information on the scope of work, cost breakdown, or the number of new hookups over the past three years. The Company plans to purchase and install

meters using a contracted water system operator (*e.g.*, E3) and handle turning on water service for all new hookups. Developers or builders will be responsible for installing hookups from the Company's main to the curb-stop at the pit-setter, with costs recovered from lot purchasers or owners.

As these facilities will become part of the Company's system, the Company must ensure installations meet reliability standards to avoid maintenance costs falling on other customers. Staff recommended the Company establish clear material and installation standards and conduct inspections during and after construction to ensure compliance. To improve communication and efficiency, Staff suggested the Company identify preferred contractors familiar with these standards for developers, builders, or lot owners to use for hookups.

Staff estimated the cost of a meter and materials at \$500, based on an invoice from H.D. Fowler Company, Bellevue, WA, where the Company recently purchased 100 water meters and related materials. During an on-site audit on July 7, 2025, Staff learned that the Company's contracted water system operator charges a flat \$100 fee for each meter installation and final inspection. Due to limited labor cost details, Staff used this \$100 fee for installation and inspection labor in its calculations.³

B. Reconnection Charge

Staff argued that the Company's proposed \$2,500 reconnection charge is excessive and unsupported, as no documentation or calculations were provided. Staff recommended the Commission approve reconnection charges based on the actual cost of dispatching a Company operator to the service location. Staff proposed a \$20 charge for work during business hours (8:00 a.m. to 5:00 p.m., Monday through Friday, excluding holidays) and a \$40 charge for work performed after hours (5:01 p.m. to 7:59 a.m., Monday through Friday, and on weekends and holidays).

C. Late Payment Charge

Staff recommended reducing the Company's proposed 3% per quarter late payment charge to a 1% per monthly charge as required by *Idaho Code* § 28-22-104. The tariff language should be

³ Because detailed cost breakdowns were not provided, Staff recommended the Commission require the Company to collect and retain detailed records for all future customer hookups. These should include contractor quotes, invoices, and costs broken down by labor (hourly rate and hours), materials (individual component costs), and equipment (cost per hour and hours). This information will support more accurate reviews if the Company requests future hookup fee updates.

updated to reflect this change and clarify that the charge applies to the unpaid balance at the time of the next billing statement.

D. Account Initiation Charge

The Company proposes a \$250 account initiation charge for new customers. Staff did not support this fee because it lacks a cost basis. Staff believed the cost to initiate an account is minimal and recommended not approving the charge.

E. Meter-Testing Charge

The Company did not justify its request for a \$500 meter testing charge if a customer asks to test a meter and the error is 1.5% or less. Staff noted that the proposed 1.5% error threshold conflicts with the current 2% threshold in the Company's General Rules and Regulations. Additionally, if no metered rate is approved, a meter testing charge is unnecessary because billing won't depend on meter accuracy.

Staff agreed that a meter testing charge is reasonable if a metered rate is approved but recommended a charge of \$10 per occurrence, which aligns with other water utilities. Staff also recommended keeping the 2% error threshold consistent with current rules.

F. IDEQ Charge

The Company's proposed tariff includes a fixed IDEQ assessment charge to fund the Company's drinking water program, passed on to customers as a separate line item and reimbursed quarterly. However, Staff's review of the Company's bank records found no evidence of payments made to IDEQ. Therefore, Staff recommended the Commission deny this charge for now. Staff further noted that, if the Company incurs IDEQ assessment fees in the future and provides payment documentation, it may seek recovery of them in a future general rate case.

G. Franchise Charge

The Company's proposed tariff includes a Franchise Charge, but since the water system is not located within any incorporated area that imposes such a fee, Staff recommended removing this section.

H. Fire Hydrant Installation Charge

The Company proposes a \$5,000 charge for the installation of a private fire hydrant upon customer request. The Company did not provide any details regarding what is included in this fee, nor did it provide supporting documentation or a cost breakdown. Staff noted that installation of a private hydrant may require an extension of the Company's existing water mains. Under

Commission-approved policy, the installation of new water mains or services for customer-requested facilities must be handled in accordance with the “Uniform Main Extension Rules for Water Utilities,” which is on file with the Commission. Staff recommended that this section of the tariff be revised to align with those rules, and that the \$5,000 charge be removed.

I. Returned Check Charge

The Company proposes a \$100 charge for returned checks. Staff recommended setting the returned check charge at \$20 to comply with *Idaho Code* § 28-22-105, which limits this fee to a maximum of \$20.

J. Tariff

Staff also observed that the Company’s current tariff will need to be revised to reflect the Commission’s final decision in this case. Staff recommended the Company work with Staff to prepare and file a complete, updated tariff within 30 days of the issuance of the Commission’s final order.

VII. Customer Notification and Press Release

The Company included a customer notice and press release with its Application. The notice was mailed on March 4, 2025, and published in the Bonner County Bee from March 4 to March 10, 2025. Staff believed that the number and nature of customer comments show that customers were well informed and could participate meaningfully in the case.

VIII. Public Customer Workshop

A virtual public customer workshop was held on Thursday, July 10, 2025, at 6:30 p.m. MT/5:30 p.m. PT. Six customers attended the workshop. No representatives from the Company were present. Customers asked questions about the procedural timeline and the rate case process. They also described how the proposed rate increases would affect them personally and financially. Staff responded to customer inquiries and provided clarification on several topics.

CUSTOMER COMMENTS AND TESTIMONY

As of August 6, 2025, the Commission received nineteen customer comments regarding the Company’s Application, all opposing the proposed rate increases. The comments raised concerns about the size and scope of the increases, objected to the introduction of a basic monthly charge, and considered the proposed rate of return excessive. Several customers emphasized the impact of high inflation and the financial burden on those with fixed or limited incomes. Others

questioned the timing of the Application and requested more detailed cost justifications from the Company.⁴

On August 12, 2025, Christopher Norton, submitted a lengthy written comment opposing the proposed rate increase. The comment primarily addressed whether certain investments made by the Company should be classified as contributed capital and, therefore, excluded from rate base. Mr. Norton also expressed opposition to implementing a metered rate design.

Mr. Norton strongly disputed the Staff's assertion that new evidence warranted reconsideration of whether certain capital investments should be treated as CIAC. Mr. Norton asserted that the "additional information" submitted in this proceeding that Staff relied upon to support giving the Company additional rate base consists of the same invoices presented in Case No. GSW-W-23-01, all originating from Valiant and TIC Utilities, with only a few minor additional expenses.

According to Mr. Norton, these invoices relate to the same plant installed after Valiant/TIC acquired the water system from VP Inc. and do not represent new evidence. Mr. Norton emphasized that in Order No. 35971, the Commission already determined that the plant in service should be excluded from the rate base because Valiant/TIC had likely recovered their costs through lot sales. Neither Valiant nor TIC petitioned for reconsideration of Order No. 35971, rendering that order final and not subject to collateral attack.

Mr. Norton further noted that Valiant/TIC have sold 130 lots, demonstrating that they have already recovered the capital costs of the water system. Mr. Norton further asserted that the capital expenses claimed in the current proceeding are effectively duplicative of those previously considered and amount to an attempt to re-litigate an issue already decided.

⁴ Two anonymous public comments were submitted after the August 6, 2025, public-comment deadline but prior to the August 14, 2025, customer hearing. Although untimely, these comments will be considered because they were filed before both the customer hearing and the Company's reply-comment deadline.

On August 15, 2025, customer David Frohnen submitted a written public comment. Although untimely because it was filed after the hearing, the comment merely reiterates the testimony Mr. Frohnen provided orally at the August 14, 2025, hearing. As that testimony is already part of the record, the substance of his comment will be considered.

Customer Christopher Norton submitted a written public comment on September 10, 2025—nearly one month after the customer hearing and after the reply-comment deadline. Because this late-filed comment was submitted after the Company's reply comment deadline, it will not be considered.

As for the Moose Mountain Booster Station, Mr. Norton argued that applying the Staff's own formula correctly would exclude 83.87% of the plant, not 49.32%, because the Applicants have largely recouped these costs through prior lot sales. The commenter concludes that there is no new evidence to justify reversing the prior decision and that the plant should remain excluded from the rate base.

Regarding the issue of rate design, Mr. Norton reiterated a prior point he asserted in a comment filed on August 5, 2025. Specifically, that most of the Company's water production costs are fixed, with only minimal variable costs for electricity and chemicals. Mr. Norton asserted that Staff's analysis confirms this, showing an incremental cost of just \$0.0007 per gallon.

According to Mr. Norton, under Valiant/TIC Utilities' proposed metered rate, customers using more than 7,500 gallons per month would be charged \$10 for every additional 1,000 gallons, even though the Company's cost to produce that extra water is only about \$0.70 per 1,000 gallons. Mr. Norton argued that roughly 93% of the incremental charge would be profit for the Company, leading to disproportionate costs for high-use customers, such as golf course homeowners who are required by The Idaho Club's covenants to maintain and water their lawns. Mr. Norton further asserted that because Valiant controls both the utility and the Home Owners Association ("HOA"), which it can use to enforce lawn-watering requirements, the proposed metered rate creates a conflict of interest by incentivizing the Company to profit from mandatory water use. Accordingly, Mr. Norton urged the implementation of an exclusive flat monthly rate, not a combination of a flat rate and metered commodity rate.

Three customers testified during the August 14, 2025, customer hearing. Some of their testimony echoed the concerns expressed in written comments described above. One customer put in considerable personal effort to analyze the Company's requested rate increase. David Frohnen, a customer of the Company and licensed professional engineer with decades of water-utility and rate-case experience, testified about his analysis of the Company's application. He argued that, even though the Company was only recently brought under Commission regulation, it has always been subject to the Public Utilities Act.

Mr. Frohnen further asserted that the developer failed to complete and finance the original water infrastructure as required and that all initial construction costs should be treated as contributed capital rather than rate base. He opposed the Company's proposal to recover more than

\$1 million in plant-in-service costs through customer rates, asserting that this would force many customers to pay twice for the same infrastructure.

Mr. Frohnen supported fair cost recovery for prudent operations and a reasonable return but urged the Commission to reject the proposed 11% rate of return as excessive compared with similar Idaho utilities. He also called for uniform billing practices (*e.g.*, ending selective fee waivers), a basic service rate for vacant lots, and deferring any metered-rate design until cost studies address significant fixed-versus-variable expenses and irrigation needs.

Mr. Frohnen highlighted the system's limited capacity to serve the full planned-unit development and requested a required facility-and-financing plan to ensure adequate water supply at build-out, at the developer's expense. Finally, he asked the Commission to open a docket to investigate the unregulated wastewater provider, citing its monopoly role and customer-service problems.

Mr. Frohnen concluded by urging the Commission to set fair, just, and reasonable rates that protect customers from double-payment, ensure reliable service, and hold the developer accountable for startup obligations.

COMPANY REPLY COMMENTS

The Company agreed with and accepted Staff's recommended rate of return and Net-to-Gross Multiplier. It also acknowledged and accepted Staff's recommendations regarding applicable tax rates, certain non-recurring charges, various expense adjustments, and the requirement to file an updated tariff within 30 days of the final order. The Company's arguments related to each disputed adjustment or recommendation are discussed below.

I. CAIC

The Company disputed Staff's conclusion that IDAPA 31.36.01 applies to its water system. According to the Company, it is not a "small water company" because its annual gross revenues exceed \$50,000 and it serves more than 300 customers. Consequently, the Company argues that the Commission should not presume its capital investment in PIS is contributed capital excluded from rate base.

The Company acknowledged that some of its investments are tied to development activities and excluded them from PIS. Specifically, the Company excluded acquisition costs of the legacy system, subdivision-specific infrastructure, and a prorated share of other investments related to Company-owned lots since the date it started operating the water system, September 22, 2020.

Before that, the Company asserts that it was not legally operating the system, earning revenue, or guaranteed approval to do so.

The Company disagreed with Staff's method of calculating contributed capital, arguing that lot sales before it became the operator were speculative and unrelated to water service. Instead, the Company proposed using 187 sold lots and 291 total lots to calculate a 35.74% CIAC ratio, resulting in a PIS of at least \$586,263. In sum, the Company urged acceptance of its adjusted PIS, which it claims fairly excludes development-related costs and reflects actual infrastructure serving third-party customers.

II. Proforma PIS

The Company agreed that the final cost of the IDEQ Facilities Plan was \$35,889 as of June 2025. However, it disagreed with Staff's recommendation to remove this amount from Operations & Maintenance ("O&M") expenses.

The Company also agreed with Staff's adjusted total cost for meters and installations but disagreed with the recommendation to require full meter installation now. The Company argued that the upfront cost would be substantial and there would be no added revenue for at least a year to offset that expense.

III. Proforma Plant Depreciation

The Company disagreed with Staff's recommendations on depreciation. It asserted that depreciation should be increased to reflect a higher PIS amount, based on its position regarding CIAC discussed above.

IV. Revenues

The Company argued that actual revenue depends on collection rates and credit losses. In support of this, the Company noted that it has never collected \$165,240 in a year. For example, actual revenue was \$128,039 in 2024 and \$64,323 in the first half of 2025. Consequently, the Company requested that revenue adjustments be based on actual collections rather than projected potential revenue.

V. Salary

The Company disagreed with Staff's salary recommendation, stating that relying on national BLS data for a generic "Manager" title overlooks key factors such as job duties, industry specifics, regional pay differences, local labor market conditions, and required qualifications. Given the scope of responsibilities for managing the utility, including oversight of engineers, legal

compliance, capital planning, billing, and more, the Company maintains that its proposed \$48,000 manager salary is reasonable and should be accepted.

VI. Chemical Adjustment

The Company disagreed with Staff's chemical expense adjustment, arguing that it does not reflect recent growth in active connections or the increased chemical usage required by the new ATEC filtration system. The Company further asserted that including 2021 data is misleading because operations were just beginning, the filtration system was not yet in use, and there were far fewer connections. Instead, the Company recommended using actual 2024 costs or annualized 2025 data, which better represent current operational needs and chemical usage.

VII. Annualized Water Testing

The Company disagreed with Staff's proposed adjustment to water testing expenses, arguing that using a three-year average understates current costs. According to the Company, including earlier years skews the results because it has recently experienced significant growth in active connections and added the ATEC filtration system, both of which have increased water testing requirements. Accordingly, the Company recommended using actual 2024 costs or annualized 2025 data, asserting this would more accurately reflect current conditions and help avoid a costly follow-up rate case in 2026.

VIII. Electricity Adjustment

The Company disagreed with Staff's proposed electricity expense adjustment, arguing that the four-year average used by Staff understates actual costs. The Company cited substantial growth in active customer connections and the introduction of the ATEC filtration system as key factors driving higher electricity usage. According to the Company, including 2021, when the system was smaller and the filtration system was not operating, and excluding a full 12-month period as an "outlier," distorts the average. Consequently, the Company argued that Staff's recommended annual expense of \$9,794 is far below the actual 2024 cost of \$22,671 and the \$17,087 incurred in just the first half of 2025. The Company asserted that using actual 2024 data or annualized 2025 costs would better reflect current needs and avoid another rate case in 2026.

IX. Reclassifying Water Facility Plan Expenses

The Company agreed that the final cost for its IDEQ Facilities Plan is \$35,889 through June 2025, but disagreed with Staff's recommendation to deduct this from O&M. The Company clarified that it did not include this amount in its 2024 or 2025 income and expense statements, as

the cost was capitalized and reported on the balance sheet for tax purposes. Therefore, reducing O&M expenses by \$35,889 would understate actual operating costs.

X. Rate Design

The Company accepted Staff's proposed rate design but urged consideration of its own revenue requirement adjustments. The Company argued that a non-flowing rate is justified, as it must maintain fire suppression and system capacity for all parcels, including those not yet connected. According to the Company, these efforts require significant investment to support future service. Without standby fees, flowing customers would unfairly bear the full cost of maintaining a system designed to serve all lots, leading to higher rates for those active users.

XI. Meter Reading

The Company expressed concern that Staff's comments do not reflect the full cost of meters. Such will not be recoverable from current customers for at least a year, if at all. Therefore, the Company proposed that the final tariff allow for reimbursement of the actual cost to install meters for all connections, including existing active ones.

XII. Hook-up Fee

The Company asserted that Staff's comments overlook the initial and ongoing costs of meter installation, especially since these expenses do not appear to be recoverable from current customers. Because the Company did not install the legacy infrastructure, there have been issues where distribution lines or meter setters are missing or not located as shown on engineering drawings. Therefore, the Company proposed that the tariff allow reimbursement for all actual costs to locate and connect to existing distribution lines and install meters and meter setters. Additionally, the Company requested that property owners be responsible for fixing any unauthorized or non-compliant hookups made before the Company assumed ownership.

XIII. Late Fees

The Company agreed with Staff's recommendation on late payment charges. However, due to significant historic accounts receivable, the Company requested permission to apply the approved charges to all outstanding balances, including those from before the rate case.

XIV. Fire Hydrant Installation Charge

The Company opposed Staff's recommendations regarding Fire Hydrant Installation Charges, arguing that the "Uniform Main Extension Rule for Small Water Companies" should not apply because the Company does not meet the definition of a "small water company." The

Company asserted that it should be reimbursed for the real and significant costs of fire hydrant installations.

XV. Responses to Public Comments

The Company reiterated that its PIS should not be presumed to be entirely CIAC because it does not qualify as a “small water company.” It maintained that at least 64.26% of its capital investment benefits lots it neither owned nor developed, and therefore, it should not be presumed to have profited from those lots. The Company also clarified that it is not seeking a return on capital related to legacy system acquisition costs or infrastructure supporting future development.

The Company further argued that many public comments received are outside the Commission’s jurisdiction and should not be considered. These include concerns about wastewater systems, golf course management, HOA matters, property plats, and alleged discrimination or retaliation, none of which are relevant to the Commission’s determination of fair water rates.

Regarding the principle of gradualism, the Company argued that is not part of Idaho Code nor discussed during rate case proceedings. The Company claimed that gradualism could jeopardize its operations and cannot be considered just or reasonable if it results in financial failure.

The Company disputed characterizations of how it acquired the water system. It explained that it originally held senior debt and acquired the infrastructure through foreclosure, not voluntary purchase. Once ownership was established, the Company assumed responsibility to provide water to all lots in the PUD, not just those it acquired or planned to develop. Without the Company’s investment in new wells, reservoirs, chlorination, and filtration systems, many homeowners would lack a viable water source.

Finally, regarding system expansion, the Company stated that it has carefully excluded infrastructure directly tied to lots it owns or intends to develop from its proposed PIS. It asserted that it is not requesting a return on costs for legacy components or new infrastructure related to future development.

XVI. Response to Comments by Christopher Norton

The Company separately responded to comments by one of its customers, Christopher Norton. According to the Company, many of his claims fall outside the Commission jurisdiction and should not impact this rate case.

The Company asserted that Mr. Norton’s concerns about system capacity, IDEQ compliance, wastewater services, golf course operations, HOA management, legal ownership, fire

codes, and other unrelated issues are irrelevant here. According to the Company, Mr. Norton began constructing his residence before the Company took over the water system, and current water pressure problems stem from Norton's non-compliant connection made before the Company's ownership, which he is responsible to correct.

The Company also asserts that Mr. Norton's claims of retaliation are unsubstantiated and potentially defamatory. Compliance issues Norton raises are not within IPUC's jurisdiction and are disputed by the Company, except for Norton's own connection issue.

Similarly, the Company asserts that allegations about the Company's capital structure and operations are baseless. The Company claimed that it has suffered losses since acquiring the system and relies on affiliated support to stay solvent, as many customers are not developed by the Company.

Finally, the Company acknowledged supplying water to The Idaho Club clubhouse but stated that the golf course irrigation system uses separate water rights and treated wastewater and is outside this rate case. Clubhouse water use is included in the recommended rates.

COMMISSION JURISDICTION

The Commission is "vested with power and jurisdiction to supervise and regulate every public utility in the state and to do all things necessary to carry out the spirit and intent of [The Public Utilities Law]." *Idaho Code* § 61-501. A "water corporation" as defined in *Idaho Code* § 61-125 is a "public utility" as defined by *Idaho Code* § 61-129. Accordingly, the Commission has jurisdiction over "every corporation or person, their lessees, trustees, receivers or trustees, appointed by any court whatsoever, owning, controlling, operating or managing any water system for compensation within this state" *Idaho Code* § 61-125.

The Commission's regulatory authority extends to the service rates charged by public utilities. Specifically, upon finding that the rates charged by a public utility are "unjust, unreasonable, discriminatory, or in any way in violation of any provision of law, or that such rates . . . are insufficient" the Commission must "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; *see also Idaho Code* § 61-503.

However, this authority over rates is not unlimited. Public utilities are entitled to a reasonable rate of return on prudent investments. "[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 the return generally being made at the same time and in the same general part of the country on investments and other business undertakings which are attended by corresponding risks and uncertainties.” *Utah Power & Light Co. v. Idaho Public Utilities Comm’n*, 105 Idaho 822, 827 (1983). The Commission has the power and the duty to set rates of return within a “broad zone of reasonableness.” *Intermountain Gas Co. v. Idaho Public Utilities Comm’n*, 97 Idaho 113, 128 (1975). “The main elements in fixing reasonable rates for service rendered by [a] public utility are the cost of rendering service on an economical and efficient basis, fair return to the utility on its property used and useful in such service and fairness to consumers.” *Application of Pacific Tel. & Tel. Co.*, 71 Idaho 476, 480-81 (1951).

COMMISSION DISCUSSION AND FINDINGS

Under our statutory authority, we have reviewed the record in this case, including the Company’s Application, public comments, customer testimony, Staff comments, and the Company’s reply comments. Based on that review, we approve a revenue requirement for the Company of \$201,869, resulting from an entirely equity capital structure with an 11% return on equity (“ROE”) applied to a net rate base of \$434,673. The Company shall satisfy this revenue requirement with the two-tiered flat rate described below. Our decisions regarding the new rates and charges are set forth in detail below. The Company’s new rates shall go into effect on the service date of this Order.

I. Revenue Requirement

Our policy is to set a public utility’s annual revenue requirement and rates using a historical test year in which the utility’s actual, booked costs and revenues are verified through auditing. *See e.g.*, Order No. 30342 at 8 (Case No. SWS-W-06-01). Based on our review of the record we find there is no dispute on the use of the calendar year 2024 as the historical test year, and that a historical test year is reasonable and appropriate for this case. After establishing the test year, pro forma adjustments are made to the actual test year data for all known and measurable changes to the operating results of the test year. *Id.*

Using the above-described method, Staff recommended an overall revenue requirement of \$201,869. The Company did not object to Staff’s recommended adjustments to the Company’s proposed Net-to-Gross Multiplier and agreed with many of the various expense adjustments Staff recommended in its revenue requirement calculation. Based upon our review of the record, we find the undisputed adjustments Staff recommended, as fair, just, and reasonable and adjust the

Company's proposed revenue requirement accordingly. Our decision on each of the adjustments the Company disputed is set forth below.

A. Rate of Return

The Company proposed a capital structure made up entirely of common equity and a 12% ROE. Since the Company currently has no approved debt, its rate of return would match its approved ROE. In recent cases, we have approved an ROE of 11% for similarly sized water utilities *See* Order Nos. 33658, 33910, 35978, and 36587. Even if we were to establish a more balanced capital structure by imputing debt to the Company, the record suggests that the interest rate would likely be equal to or higher than the 11% ROE that we have previously found reflects current market conditions. Therefore, we find it fair, just, and reasonable to approve the Company's proposed capital structure with an 11% ROE.

B. Revenue Normalization

Before addressing the disputed revenue adjustments in this case, we must first resolve an issue with the actual revenues reported in the Company's Application. Ostensibly due to data loss that occurred when the Company switched billing service providers, the Application included only three quarters of the Company's actual test-year revenues.

We acknowledge the Company's objections to imputing the "potential" gross revenues proposed by Staff. However, although the Company claimed it collected significantly less than the \$165,240 that Staff calculated for 2024, it failed to provide evidence to verify the \$128,039 it says it collected that year or the \$64,323 it reported for the first half of 2025. Moreover, accepting the Company's figures would give it a windfall if it collects the full revenues it is entitled to from customers. Accordingly, we find it reasonable to impute a test-year revenue of \$165,240 for the Company, an increase of \$37,657 over the amount reported in the Application.

C. Expense Adjustments

Staff proposed total expenses for the Company of \$117,153, which is \$116,783 less than the Application. The Company did not object to some of the expense adjustments Staff recommended in its revenue requirement calculation. Specifically, the Company did not object to Staff's recommended adjustments related to Commission assessment fees, reclassifying E3 consulting and wastewater expenses, certain attorney fees, and rate case expenses. Based upon our review of the record, we find the undisputed adjustments Staff recommended, described above, as

fair, just, and reasonable and adjust the Company's proposed revenue requirement accordingly. Our decision on each of the adjustments the Company disputed is set forth below.

1. Salaries

Keeping skilled, experienced employees, including those in field and management roles, benefits both the Company and its customers. However, employee pay must be reasonable as overcompensating employees does not serve customers or the utility.

The Company proposes a \$48,000 annual salary expense for its manager. Based on the manager's average weekly 12.5 hours of work for the utility, this results in a \$74 hourly wage, which we find excessive. Instead, we find a reasonable salary to be \$30,000 per year, or about \$46 per hour. This aligns with salary data from BLS data for other managerial positions. Accordingly, we find it reasonable to authorize a \$30,000 salary expense for the manager of the Company, reducing the Company's proposed expense by \$18,000.

2. Chemical Adjustment

Water utilities may have to chemically treat water before providing it to customers to eliminate pathogens or remove impurities. Based on calculations using data on the Company's chemical usage between 2021 through 2024, Staff recommended a chemical expense for the Company of \$3,944, reducing the requested chemical expense in the Application by \$6,224.

According to the Company, Staff's recommendation failed to account for the introduction of an ATEC filtration system, which significantly improved the water system's performance but also substantially increased its chemical usage. The Company also urged exclusion of 2021 chemical use data, arguing that it skews the analysis because the Company had just started operations and the installation of the ATEC system and significant customer growth have occurred since then.

The Company is entitled to recovery of the expenses that it prudently incurred to serve its customers. It is possible that customer growth since 2021 and activation of the ATEC system fully explain the significant increase in chemical spending between 2021 and 2024. However, beyond conclusory assertions, the Company did not provide evidence substantiating and explaining the purported link between customer growth or the installation of the ATEC system and the significant jump in chemical purchases that occurred between 2021 and 2022. Accordingly, we find Staff's proposed chemical expense adjustment of \$3,944 reasonable, resulting in a \$6,224 reduction to the amount requested in the Application.

3. Water Testing Annualization

For similar reasons, we find Staff's proposed annualization of the Company's water testing expenses to be reasonable. The Company follows a three-year testing cycle. Staff calculated the total three-year water testing costs, annualizing them at \$1,338 per year and recommending this as the annual expense. This reduced the Company's original request by \$2,402. The Company asserts, without substantiating evidence or cogent explanation, that this recommendation fails to consider customer growth or the installation of the ATEC system. It is possible that these factors could justify a different water testing expense than the one Staff recommends. However, we must base our decision on the evidence in the record. Accordingly, we find it reasonable to authorize an annual water testing expense of \$1,338 per year, a \$2,402 reduction of the Company's original request.

4. Electricity Adjustment

In the same vein, we find it reasonable to approve Staff's recommended electricity expense. Staff recommended an annual electricity expense of \$9,794, based on per-gallon electricity costs applied to normalized water production over three years of data from November 2021 to October 2024. The Company asserts that Staff's proposed expense falls far short of the \$22,671 of actual electric expenses it incurred during 2024 and \$17,087 incurred during the first half of 2025. As stated previously, the Company is entitled to recover the expenses it prudently incurred to serve its customers. However, we must base our decisions on the evidence in the record. If the Company wishes to recover these electricity expenses, it must provide data and explanation substantiating and justifying how the substantial electricity expenses were prudently incurred to serve its customers.

5. Reclassification of Water Facility Plan Expenses

It is undisputed that the Company incurred \$35,889 in costs to obtain an IDEQ Facilities Plan. The Company included the costs of this plan in its proforma plant and in its Materials & Supplies – Operation & Maintenance. To ensure that this amount is not double counted and remains consistent with regular accounting principles applied in prior cases, we find it reasonable to exclude it from Materials & Supplies – Operation & Maintenance, reducing expenses by \$33,309.

D. Rate Base

Staff recommended a net rate base of \$434,673. The Company opposed this recommendation and proposed a different method for calculating CIAC, which would result in a different depreciation adjustment. Based upon our review of the record and prior determination regarding depreciation rates, we find Staff's recommended rate base reasonable.

1. CIAC

The most contested matter in this case is whether the Company's investments in certain infrastructure constitute rate base or CIAC. The Company, Staff, and customers each proposed different rate base amounts, largely because they used different methods to calculate CIAC. These diverging calculations all result from the application of IDAPA 31.36.01.102, which creates a presumption that certain capital investments by small water companies are contributed capital. Differing applications of this rule result in rate base recommendations ranging from \$78,448 to \$605,401. For the reasons stated below, we find it just and reasonable to address this CIAC issue by reducing the Plant in Service amount requested in the Application by \$477,657 and Accumulated Amortization by \$130,956. This results in a \$27,708 reduction to the Company's Depreciation Expense because CIAC-related plant should not be depreciated.

As stated, the source of the dispute over how much of the Company's investment in the water system should be deemed CIAC is IDAPA 31.36.01.102, which provides in pertinent part:

In . . . setting rates for a small water company, it will be presumed that the capital investment in plant associated with the system is contributed capital, i.e., that this capital investment will be excluded from rate base.

In its Application, the Company requested \$605,401 in rate base. However, if the presumption described above applies, the capital the Company invested in its water system would be deemed CIAC, excluding it from rate base.

This is not the first time we have addressed the issue of whether the Company's investments in its water system constitute rate base or CIAC. In Case No. GSW-W-23-01, we approved Gem State's application to acquire the Company's water system. *See* Order No. 35971. Despite approving the sale of the water system, we determined that Gem State "failed to overcome the presumption of contributed capital under IDAPA 31.36.01.102." To support this conclusion, we reasoned that the record did not show that Gem State or anyone else involved in building the water system failed to recover their costs through the sale of lots in the served area. *Id.* at 6–7.

Accordingly, we concluded that all current plant-in-service for the water system would be excluded from the rate base. *Id.* at 7.

At least one customer argued that the above determination precludes relitigation of whether the Company's investments in its water system are CIAC in this case. We disagree. The customer appears to be arguing that issue preclusion prevents the Company from attempting to avert application of IDAPA 31.36.01.102. Issue preclusion, also known as collateral estoppel, applies in Idaho administrative proceedings. *Sagewillow, Inc. v. Idaho Dep't of Water Res.*, 138 Idaho 831, 844, 70 P.3d 669, 682 (2003). Issue preclusion bars relitigation of a previously determined issue applies where:

- (1) the party against whom the earlier decision was asserted had a full and fair opportunity to litigate the issue decided in the earlier case; (2) the issue decided in the prior litigation was identical to the issue presented in the present action; (3) the issue sought to be precluded was actually decided in the prior litigation; (4) there was a final judgment on the merits in the prior litigation; and (5) the party against whom the issue is asserted was a party or in privity with a party to the litigation.

Byrd v. Idaho State Bd. of Land Commissioners, 169 Idaho 922, 931, 505 P.3d 708, 717 (2022).

The administrative proceedings regarding the approval of Gem State's acquisition of the Company's water system were conducted with a minimum of procedures. For example, no hearing was conducted in Case No. GSW-W-23-01. Rather, the case was processed via written comments submitted under the Commission's rules authorizing Modified Procedure. *See* Order No. 35779. Additionally, although the case focused on the sale of its water system, the Company did not formally appear as a party to actively litigate the issue of whether its water system investments were properly characterized as rate base or CIAC. Nor was a resolution of that issue necessary to approve Gem State's acquisition of the Company's water system. Consequently, issue preclusion does not apply to bar relitigation of the issue.

The customer also argued that relitigating whether the Company's investments in its water system are rate base or CIAC would constitute an impermissible collateral attack on Order No. 35971 prohibited by *Idaho Code* § 61-625. Again, we disagree. The Idaho Supreme Court has recognized that the authority to rescind or modify an order or decision, contained in *Idaho Code* § 61-624, implies that we have the authority to grant a request that was denied in a previous order. *See Associated Pac. Movers, Housemovers, Inc. v. Rowley*, 97 Idaho 663, 665, 551 P.2d 618, 620 (1976). Any person who reviewed the public filings in this case would be fully aware that the

characterization of the Company's investments in its water system were at issue. Indeed, Staff, the Company, and its customers all asserted arguments related to this issue. Consequently, we conclude that granting the Company rate base for investment in its water system would not violate *Idaho Code* § 61-625.

The Company argues that the CIAC presumption does not apply because it is not a small water company as defined under IDAPA 31.36.01.101. Specifically, the Company argues that its annual revenue exceeds \$50,000 and it has more than 300 customers. Resolving this argument is unnecessary. Even if the CIAC presumption did not apply to the Company, it should not be allowed to double-recover investments into its water system. Consequently, we must determine which portions of its investments into its water system are recoverable through the sale of lots and which ones it will not.

We next consider which Company investments should be included in rate base. Normally, a small water company's system initial investments in a water system are presumed to be CIAC to prevent double recovery—first through lot sales and again through rates. However, if the small water company shows it cannot recover certain investments through lot sales, that presumption is rebutted. Unlike Gem State in Case No. GSW-W-23-01, the Company demonstrated that all plant assets proposed for rate base treatment in its Application were acquired after purchasing the system from VP Inc. Moreover, these assets are used to service existing and will be used to service new customers as additional platted lots are sold in the Company's service territory. Because some lots in the Company's current service territory had already been sold when the Company obtained the water system, the Company cannot recover the prorata portion of these investments associated with those lots through future sales. Consequently, we find it reasonable to authorize the Company rate base for the prorated portion of its plant investment associated with these presold lots.

We find Staff's proposed method for determining the portion of lots to be included in the rate base to be fair, just, and reasonable. Specifically, Staff recommends calculating the Company's rate base by multiplying the total value of assets proposed for inclusion by the ratio of lots already sold within the Company's service area at the time it acquired the water system to the total number of planned and platted lots in that area.

The Company asserts that these inputs fail to account for certain plots ostensibly sold before this case and other plots for which it will not claim infrastructure costs. However, it is unclear what lots sold before this case the Company is referencing or why their sale before this

case prevented the Company from recovering infrastructure investment through their sale. Likewise, even if the Company chooses not to recover its water system capital investments through the sale of certain lots, that decision does not justify excluding those lots from the rate base calculation.

Applying Staff's proposed methodology, we find it reasonable to reduce the Company's PIS proposed in the Application by \$477,657 and Accumulated Amortization by \$130,956. This approach will simplify future regulatory filings and accounting. It also reduces the Company's Depreciation Expense by \$27,708, since assets classified as CIAC in the previous calculation are not subject to depreciation.

2. Proforma PIS

We find it fair, just, and reasonable to exclude two amounts from the Company's pro forma PIS. First, the Company requested \$40,000 for its IDEQ Facilities Plan but had only incurred \$35,889 in costs as of June 2025. Because future costs are not known and measurable, the additional \$4,111 will be excluded from the rate base.

Second, the Company's \$43,615.55 request for meters and installation included an incorrect sales tax calculation. The Company used an 8.9% rate instead of the applicable 6.0% rate, resulting in an overstatement of \$1,057. We find it fair, just, and reasonable to exclude this amount from the rate base.

E. Rate Design

Based on our review of the record, we find it fair, just, and reasonable to approve Staff's proposed Option B rate design. Specifically, the Company is authorized to charge a flat \$67 monthly rate to 3/4-inch and 1-inch customers who are consuming water. Because not all current customers have water meters, we deny the Company's request to charge a commodity rate for usage exceeding 7,500 gallons per month.

Additionally, the Company may continue charging a flat \$45 monthly rate to customers who are not consuming water. In prior cases, we have been reluctant to authorize non-flowing or standby rates, reasoning that customers should not pay utility rates if they are not benefiting from the water system. *See* Order No. 36313. However, all lots within the Company's service territory do benefit from the fire protection the Company's water system provides. Additionally, all lot owners within the Company's service territory have historically been charged for water service even if they were not currently consuming water. Immediately relieving non-flowing customers of

any obligation to pay rates for water service would not only provide them the benefit of fire protection at no cost but would also inflict significant rate shock on the Company's flowing customers. Accordingly, we find it reasonable to continue allowing the Company to charge customers who are not consuming water the same rates they were accustomed to when the Company was unregulated.

F. Meter Reading

The Company currently has 50 metered connections. We find it reasonable to require the Company to begin reading these meters to gather consumption data. This data will be valuable in future rate cases for developing commodity rates, improving cost recovery, reducing subsidies, managing water use, and detecting leaks. If monthly meter readings are not practical year-round due to weather conditions, the Company should read meters monthly from June through September and at least once between October and May.

G. Non-Recurring Charges

The Company proposed various additional non-recurring charges. We find it fair, just, and reasonable to allow the Company to charge for reconnection, late payment, returned checks, and hook-up fees as described below. We decline to authorize the Company to charge for account initiation, IDEQ assessments, meter-testing, franchise fees, and fire hydrant installation.

1. Reconnection Charge

As the Company provided no information to support the \$2,500 reconnection charge requested in the Application, we decline to approve it. Instead, we find it reasonable to authorize the Company to impose a \$20 charge for reconnections performed during business hours (*i.e.*, 8:00 a.m. to 5:00 p.m., Monday through Friday, excluding holidays) and a \$40 charge for work performed outside normal business hours (*i.e.*, 5:01 p.m. to 7:59 a.m., Monday through Friday, weekends, and during holidays).

2. Late Payment Charge

Consistent with *Idaho Code* § 28-22-104, we find it reasonable to revise the Company's proposed 3% per quarter late payment charge to a 1% monthly charge. The Company must update its tariff to reflect this charge. This fee shall be effective October 1, 2025, and will appear on customers' next bill.

3. Returned Check Charge

Consistent with *Idaho Code* § 28-22-105, we find it reasonable to authorize a returned check charge of \$20.

4. Hook-up Fees

We find it reasonable to authorize the Company to impose a total of \$600 for hooking up new customers, \$500 for the cost of a meter and materials and \$100 for installation and inspection costs. The Company must inspect connections during and after construction up to the pit setter.

The Company must keep detailed records of all future hookups, including contractor quotes, invoices, and costs for labor, materials, and equipment. To ensure reliable connections and avoid passing maintenance costs to other customers, the Company must set clear material and installation standards and inspect connections for compliance. The Company should also recommend contractors familiar with these standards for developers, builders, or lot owners to use for hookups.

5. Account Initiation

We deny the Company's request to charge new customers \$250 to initiate an account. The Company failed to provide a sufficient cost basis for this fee. Furthermore, we anticipate the actual cost of starting an account to be minimal.

6. IDEQ Assessments

The Company seeks to pass on the cost of IDEQ assessments intended to fund the Company's drinking water program. However, the Company has not demonstrated that it has paid IDEQ such an assessment yet. Therefore, we consider it reasonable to deny this charge at this time. The Company may request recovery of any IDEQ assessment fees in a future general rate case once they are actually incurred.

7. Meter-Testing

Because we have not authorized the Company to charge a metered rate, the precision of its meters is currently of primary importance. Consequently, we find it reasonable to deny the Company's request to impose a \$500 charge for customer-requested meter testing if the meter is accurate to within 1.5%.

8. Franchise Fees

The Company included a Franchise Charge in its proposed tariff. Because the Company's service territory is not within an incorporated area that imposes such a fee, we find it reasonable to deny this charge.

9. Fire Hydrant Installation

The Company seeks to impose a \$5,000 charge on customers who request installation of a private fire hydrant. It is unclear precisely what this charge would cover as the Company did not provide documentation to support the request or a cost breakdown. Regardless, we find it reasonable to direct the Company to follow the provisions governing the installation of new water mains or services for customer-requested facilities contained in the "Uniform Main Extension Rules for Small Water Companies" on file with the Commission. These rules provide an established procedure for the installation of such infrastructure. Even if the Company does not fall within the definition of a small water company, it is not so large as to make application of these rules unreasonable.

Accordingly, we find it reasonable to direct the Company to revise the portion of its proposed tariff related to the installation of fire hydrants at customer request so that it complies with those rules. We also find it reasonable to deny the Company's request to impose the \$5,000 fee for such installation.

ORDER

IT IS HEREBY ORDERED that the Company is permitted to increase its rates and charges as described above.

IT IS FURTHER ORDERED that the Company must submit tariffs in compliance with the rates and charges identified herein no later than 30 days from the service date of this Order.

IT IS FURTHER ORDERED that the Company shall begin taking meter readings as directed in this Order.

IT IS FURTHER ORDERED that the Company shall obtain and retain contract quotes, invoices, and other cost records of all future new customer connections broken down by labor, material cost, and equipment cost as discussed in 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. *See Idaho Code § 61-626.*

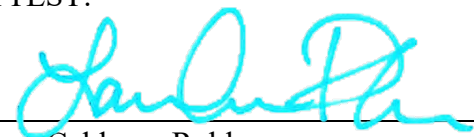
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 3rd day of November 2025.


EDWARD LODGE, PRESIDENT


JOHN R. HAMMOND JR., COMMISSIONER


DAYN HARDIE, COMMISSIONER

ATTEST:


Laura Calderon Robles
Interim Commission Secretary

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