

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF VP INC.’S) CASE NO. VPI-W-24-01
APPLICATION FOR A CERTIFICATE OF)
PUBLIC CONVENIENCE AND NECESSITY)
AND TO INCREASE ITS RATES AND) ORDER NO. 36313
CHARGES FOR WATER SERVICE IN THE)
STATE OF IDAHO)
)

On January 11, 2024, VP Inc. (“VP” or “Company”) applied for a Certificate of Public Convenience and Necessity (“CPCN”) to provide water service near Sandpoint, Idaho (“Application”). The Commission directed VP to apply after finding it was a water corporation subject to the Commission’s regulation as a public utility in Case No. GNR-W-17-01. *See* Order No. 35998 at 4.

On February 20, 2024, VP amended its Application to include a request to increase its monthly rate for water service.

On March 12, 2024, the Commission issued a Notice of Application and Notice of Intervention Deadline. Order No. 36117. No parties petitioned to intervene.

On April 23, 2024, the Commission issued a Notice of Modified Procedure setting comment deadlines and suspended the Company’s proposed effective date. Order No. 36156. The Commission Staff (“Staff”) filed comments along with two customers of the Company. The Company did not reply.

On June 6, 2024, Staff conducted a Virtual Public Workshop. None of the Company’s customers attended, and no questions or comments were received.

On June 24, 2024, the Commission held a customer hearing in Sandpoint, Idaho. No members of the public testified or otherwise participated in the hearing. Although representatives from the Company attended, they did not testify.

Having reviewed the record, the Commission issues this final Order granting the Company a CPCN and setting rates and terms for the water services the Company will provide to its customers.

THE AMENDED APPLICATION

The Company requests that the Commission issue a CPCN authorizing it to provide water service to domestic customers. The Company currently services 74 water customers in the Hidden Lakes subdivision in Bonner County, Idaho. The Company currently charges three different monthly flat rates: \$35, \$40, and \$45. When a lot was purchased or connected to the water system determines which rate the lot owner is charged. The Company also seeks authority to raise its rates to a single monthly flat rate of \$55, which will generate a revenue of \$46,860. The Company is not currently regulated by the Commission and does not possess a CPCN.

STAFF COMMENTS

After reviewing the Application, attached exhibits, the Company's responses to production requests, and additional information provided by the Company, Staff recommended that the Commission issue the Company a CPCN. Additionally, Staff recommended approval of a \$55 flat monthly rate for customers using water; a \$40 flat-rate for non-flowing customers; and an 11 percent Return on Equity ("ROE") on a net rate base of \$26,995.

According to Staff, the Company currently serves 71 paying customers with a water system consisting of two wells, two non-pressurized storage tanks, one booster pump, and two distribution systems. The most recent Idaho Department of Environmental Quality ("IDEQ") Sanitary Survey, which was conducted in 2018, identified no significant deficiencies in the water system. Staff believed the Company's water rights (494 gallons per minute of total diversion) are sufficient to satisfy near-term system growth.

Staff recommended that the CPCN issued to the Company describe its service territory consistent with two attachments to the Application. Attachment A is an index of various plats and parcels the Company serves. Attachment B is a map of the Company's overall service territory. Staff confirmed that the attachments accurately describe the area the Company currently serves without encroaching upon areas served by other water systems nor exceeding the Company's water rights.

Staff noted that the Application did not identify a revenue requirement for the Company. The \$55 monthly flat rate the Company proposed would generate \$46,860. As stated, Staff recommended the Commission establish a flat \$55 monthly rate for flowing customers and maintain the \$40 flat rate for non-flowing customers. Although the Company's 24 non-flowing customers do not consume water, the Company must maintain the system and be prepared to serve

them. Staff believed that establishing a non-flowing customer class will help the Company meet this need. Because most customers already pay \$40 per month for service, those transitioning to the non-flowing customer class will experience minimal change to their monthly bill. Accordingly, Staff believed charging non-flowing customers \$40 per month is reasonable. Staff's two proposed rates (flowing and non-flowing) would generate \$42,540 in revenues annually.

In addition to these flat rates, Staff made several recommendations relevant to revenues, expenses, and rate base for the Company. First, Staff recommended the Company notify customers with a past due balance exceeding 120 days their service will be terminated if their accounts are not made current. Staff believed this may encourage customers to pay outstanding bills, thereby reducing the Company's significant accounts receivable balance and mitigating increases to future rates.¹

Staff also recommended reducing the Company's reported Operations and Maintenance ("O&M") expenses from \$44,901 to \$41,456. Staff calculated this reduced O&M after excluding certain repairs paid for by customers and one-time expenses and including adjustments for electrical bills, depreciation, and amortized expenses for this case.

Staff further recommended that the Commission authorize a rate base of \$26,995, consisting of \$22,210 of plant-in-service ("PIS") and \$4,785 of working capital. In calculating this amount, Staff acknowledged that most of the water system is contributed capital that contributes nothing to rate base. However, Staff identified two system investments the Company made in 2019 and 2020, respectively, that it recommends be recognized as prudently incurred expenses, providing \$27,051 in PIS. Staff also indicated that the Company did not report any accumulated depreciation. Based on each asset's annual depreciation expense, Staff recommends an annual accumulated depreciation expense of \$4,841. Using the one-eighth method, Staff recommended a working capital allowance of \$4,785.

Consistent with cases involving similar water utilities, Staff recommended the Commission authorize a ROE of 11 percent. Because the Company has no authorized debt, this ROE is the same as the overall rate of return.

The Application included a proposed tariff. Additional charges were also detailed in Exhibit No. 7 to the Application. Staff recommended approval of a \$20 return check charge in

¹ Staff indicated that, at the end of 2023, the Company had an accounts receivable balance equal to nearly half the Company's total 2023 revenue. If the Company cannot collect the outstanding bills, it can write them off as bad debt to be collected through rates charged to all customers.

addition to the non-recurring charges listed in Exhibit No. 7. Staff has committed to working with the Company to ensure its tariff reflects the charges the Commission approves.

Staff further indicated that the notice of the requested rate increase the Company provided to customers in February 2024 and published in the Bonner County Daily Bee in March 2024 complies with Commission rules.

PUBLIC COMMENTS

Two public comments were filed. One comment articulates a non-flowing customer's concern over being charged despite not receiving water service. The other comment referenced lead contamination in the water system.²

DISCUSSION AND FINDINGS

Based on our review of the record and the nature and manner of control exercised by the Company in the operation and management of the water system servicing those within the Hidden Springs subdivision, we find it reasonable to assert formal regulatory jurisdiction over VP and its water system. Accordingly, we have jurisdiction over VP, a water corporation under *Idaho Code* § 61-125, and the issues presented in Case No. VPI-W-24-01 pursuant to Idaho Public Utilities Law Idaho Code, Title 61, and the Commission's Rules of Procedure, IDAPA 31.01.01.000, *et seq.*

1. CPCN

We find it reasonable to grant the Company's request for issuance of a CPCN to provide water services within the Hidden Springs subdivision near Sandpoint, Idaho, as present and future public convenience and necessity requires issuance of such a certificate. The Company's service area shall include the area described in Attachment A to Staff's Comments and the map contained in Attachment B.

As a regulated utility, the Company is required to adopt the Commission's Utility Customer Relations Rules (UCRR; IDAPA 31.21.01 *et seq.*) and Utility Customer Information Rules (UCIR; IDAPA 31.21.02 *et seq.*). These Rules provide a guide for just, reasonable, and nondiscriminatory treatment of customers. The Commission also requires the Company to adopt an accounting system consistent with the information required by the Commission's Annual Report for Small Water Companies.

² Staff could not find an indication on IDEQ's website that the water system had experienced lead contamination.

2. Revenue Requirement

Although the Company requests an increase in rates to generate \$46,860 in annual revenue, the Staff recommends rates that supports only a revenue requirement of \$42,540. We find Staff's recommended annual revenue requirement to be fair, just, and reasonable. Furthermore, we find the reduction in the Company's reported O&M expenses reasonable. Repairs customers paid for and the Company reported as revenue should not be included in O&M expenses. Accordingly, we find it reasonable to reduce the Company's reported O&M to \$41,456.

3. Rate Base

Rate base is the asset base from which a utility provides service (*i.e.*, the sum of its net plant-in-service and working capital). Commission Rule 103 for small water companies (Policies & Presumptions for Small Water Companies, IDAPA 31.36.01.103) establishes a presumption that capital invested in the water system by the developer is considered contributed capital and is excluded from rate base. Rule 103 states:

In issuing certificates for a small water company or 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.

Contributed capital funded much of the Company's water system. However, we find it reasonable to recognize the two investments the Company made in 2019 and 2020 (rehabilitation of its second well and the purchase of a pump, respectively) as prudently incurred expenditures, providing \$27,051 in PIS. Further, we find it reasonable to recognize an accumulated depreciation expense of \$4,841. Additionally, the Company's daily operations require some working capital. We find Staff's recommended working capital allowance of \$4,785 is reasonable. This provides the Company with a rate base of \$26,995. Consistent with similar small water companies, we find a return on equity of 11.0 percent to be reasonable.

4. Rate Design

The Company proposes charging a flat rate of \$55 for 74 customers. However, only those receiving services from the water system should pay for its operation pursuant to past Commission decisions. Consequently, the Company cannot charge "non-flowing" customers. Accordingly, we find it reasonable to authorize the Company to charge only those customers for water service that consuming water. Accordingly, based on Staff's proposed revenue requirement

of \$42,540, we find that a flat monthly rate of \$75.43 per customer receiving water service is reasonable and will allow the Company to meet its revenue requirement.

5. Non-Recurring Charges

The Idaho Code grants the Commission authority to set rates (which includes fees) that are fair, just, and reasonable. *See Idaho Code* §§ 61-501 and -502. We have reviewed the documents submitted by Staff and the Company and find that the Company's proposed reconnection fee of \$50 is fair, just, and reasonable. Similarly, we find the Company's proposed 1 percent monthly late payment charge to be a reasonable way to encourage prompt payment. Additionally, we find it reasonable to authorize the Company to impose a \$20 returned check charge, consistent with *Idaho Code* § 28-22-105. To promote the collection of the large outstanding accounts receivable balance, we encourage the Company to notify customers with past-due balances exceeding 120 days that their water service may be disconnected for failure to pay consistent with the UCRRs.

6. Tariff and Customer Notices

The Company submitted copies of its proposed tariff, including a schedule of non-recurring charges. Similarly, the Company submitted copies of other required documents such as a disconnection notices and the annual rules summary. However, we did not authorize the Company to impose all the non-recurring charges contained in the proposed tariff. Staff reviewed the documents and is willing to work with the Company to ensure these documents meet Commission requirements. We direct the Company to work directly with Staff to update its tariff following issuance of this order.

ORDER

IT IS HEREBY ORDERED that the Company's Application for a CPCN authorizing it to operate as a water utility within the State of Idaho, as described herein, is approved. The Company is authorized to collect a total revenue requirement of \$42,540 from its customers, with expenses, rate base, return on equity, rate design, and fees as approved and described more fully in this Order.

IT IS FURTHER ORDERED that the fees, rates, and charges for water service approved herein shall become effective upon the service date of this Order.

IT IS FURTHER ORDERED that the Company shall work in a cooperative manner with Staff to revise its existing billing statement and rate schedules in order that they comply with

the General Rules and Regulations for Small Water Utilities, the Uniform Main Extension Rules, and the Commission's rules and procedures.

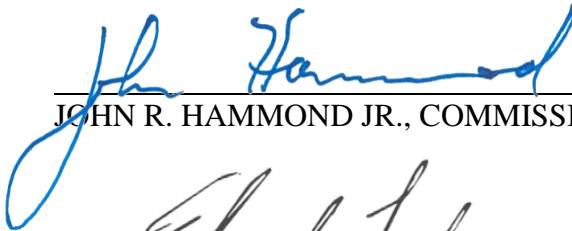
IT IS FURTHER ORDERED that the Company shall submit tariffs in compliance with the rates and charges set forth and approved by this Order no later than 30 days from the service date of this Order.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. 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 September 2024.



ERIC ANDERSON, PRESIDENT

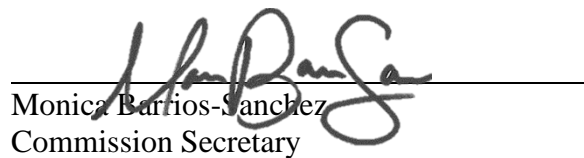


JOHN R. HAMMOND JR., COMMISSIONER



EDWARD LODGE, COMMISSIONER

ATTEST:



Monica Barrios-Sanchez
Commission Secretary

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