Office of the Secretary
Service Date
October 22, 2007

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF DIAMOND BAR ESTATES WATER COMPANY FOR AN INCREASE IN RATES AND CHARGES.	)))))	CASE NO. DIA-W-07-01 ORDER NO. 30455

On April 13, 2007, Diamond Bar Estates Water Company (Diamond Bar; Company) filed an Application to increase its rates for water service by approximately 87%, change its fees for installation of meters, and to implement new customer connection charges. The Company requested an effective date for the new rates and charges of June 1, 2007. The Commission suspended the requested effective date and authorized the use of Modified Procedure to process the Company's Application, setting a comment deadline of August 10, 2007. Order No. 30311. Staff conducted a public workshop pursuant to Rule 125 on June 20, 2007.

The Commission received written comments from Commission Staff, as well as several customers. The Company filed a reply to Staff's comments. Additionally, a public hearing was held on September 26, 2007, where public testimony was recorded. With this Order the Commission authorizes an increase in rates of approximately 59% and other changes to the Company's tariff as more fully set forth below.

BACKGROUND

Diamond Bar was granted a Certificate of Public Convenience and Necessity authorizing it to provide water service to the Diamond Bar Estates Subdivision in Kootenai County, Idaho, on May 30, 2003. Case No. GNR-W-02-3, Order No. 29247. The Company's initial rates and charges were also established and approved at that time. Order No. 29247. The Company's authorized service territory was expanded to include the Boekel Estates Subdivision on August 2, 2004. Case No. DIA-W-04-01, Order No. 24556. This is the Company's first rate case since initial rates were approved with the issuance of the Company's Certificate.

A. The Current Application

According to its Application the Company is seeking authority to: (1) increase the water rates it charges customers by approximately 87.44%; (2) increase fees for the first-time installation of a meter to serve a new customer from $200 to $310; and (3) implement a new customer connection charge of either $2,500 or $5,500 where a service line to the property does not currently exist.

According to the Company's Customer Notice, the Company proposes to increase its minimum monthly charge for the first 7,500 gallons of water from $21 to $50 per month and to increase the commodity rate from $.45 to $.52 per 1,000 gallons used in excess of the allowed 7,500 gallons per month. The Company states that it has operated at a loss for a number of years and this increase will help cover its operating costs. The Company requests recovery of $34,912 as its revenue requirement.

B. System Description

Diamond Bar currently serves 43 residential customers. Diamond Bar Estates Subdivision consists of 45 5-acre lots, 42 of which are occupied and receiving service. Boekel Estates Subdivision consists of 14 5-acre lots, one of which is presently occupied and receiving service. Most customers have good-sized homes with large outbuildings. For many, irrigation is considered vital with some having large lawns. The Company is anticipating that growth may increase by at least one and possibly two customers per year with the potential of reaching 59, assuming that all lots in both subdivisions are eventually sold and occupied.

The Company's system consists of 12,537 linear feet of 6″ main and 1,033 linear feet of 2″ service line, with one operating well, a backup well, and two submersible well pumps. The pump on the operating well is rated at 60 hp and 570 gpm. The backup well is equipped with a pump rated at 15 hp and 55 gpm. The pump house sits over a 65,000-gallon storage tank.

The water system design is such that the supply wells, reservoir, and pumping facilities provide water to each lot within the subdivision with service through a domestic meter and an optional irrigation meter. The domestic service is the typical underground-metered service and the optional irrigation service is a larger-diameter metered service fitted with a backflow prevention device. Each year the irrigation meters and backflow prevention devices are removed prior to the winter months to prevent freezing. Approximately two-thirds of the Company's customers request irrigation meters annually.

During the months of November through March, meters are not read. Customers are charged and billed a minimum charge of $21 for each month of the six-month period. In April, the meters are read and any excess consumption above 45,000 (7,500 x 6) gallons is billed at the $.45 per 1,000-gallon rate. For those customers who choose to have an irrigation meter installed in April, the Company reads both meters, and the water consumption for both domestic and irrigation use is combined. After subtracting the allowed 7,500 gallons each month, the customer is billed at the $.45 per 1,000-gallon rate for the excess. Upon Staff's inspection, the system appeared to be of sound design, in good condition, and well-maintained.

CUSTOMER COMMENTS

The Commission's Consumer Assistance Staff did not receive any consumer complaints or inquiries in 2004, 2005, or 2006. In 2007, one customer contacted Staff regarding the current case stating that the requested rate increase was not justified. The Commission received written comments from approximately seven customers.

Several customers made specific rate design requests. One customer submitted a fairly detailed rate design analysis based upon an analysis of actual usage and revenue requirement. (The specific revenue requirement recommendations by customers are discussed in the relevant section below.) Two of the comments questioned the "cost basis" of the water company, one referring to the Commission's rule regarding contributed capital, and another suggesting that Staff investigate and allow only company investment after the homeowner's association voted not to take control of the system and it was retained by the developer. Some comments questioned whether some of the reported costs and expenses were related to other companies (affiliates) owned by the Turnipseeds, stating that they should be disallowed. One comment stated that any increase should be limited to 5-6%.

A public workshop was held June 20, 2007, in Rathdrum, Idaho. Eleven Diamond Bar customers attended along with Robert Turnipseed, the owner, and his wife. Staff explained the Application, the process of reviewing the Application and answered questions from the customers in attendance. Nearly all customers in attendance requested an opportunity to comment on the case after having an opportunity to review Staff's comments. Consequently, the Commission conducted a public hearing on September 26, 2007, in Rathdrum, Idaho, after comments had been filed, to accommodate this request and allow customers to make statements on the record after reviewing all comments made on the case. Four customers made statements for the record at the public hearing.

REVENUE REQUIREMENT

The Company requested a rate base in the amount of $27,545, a rate of return of 12%, annual expenses of $26,984, and a revenue requirement of $34,642.91. Staff recommended a rate base of $16,801, a rate of return of 12%, annual expenses of $22,024, and ultimately a revenue requirement of $28,076.

A. Rate Base

The Commission approved a rate base in the 2002 case for this Company of $3,060. The Company now requests that it be allowed a rate base of $27,545. Staff reviewed the Company's schedules showing how the rate base balance has grown. Of this amount, Staff has taken exception to three additions to rate base, removal of which reduces the Company's requested rate base by $10,774. Staff's adjustments relate to the Company's inclusion into rate base of: (1) expenses incurred to preserve and protect its water right; (2) the Company's 2002 rate case expense; and (3) the Company's projected amount for its current rate case expense.

First, the Company has capitalized $5,000 as the expense it expects to incur to preserve and protect its current water right. It has expended $1,023 for attorney fees, and has a pro forma adjustment of $3,977 for the future legal fees to complete the adjudication process. This amount should not be included in rate base to earn a return. Staff, however, recommends that the actual amount be capitalized and then amortized over a five-year period. Staff increased total annual expenses by $1,000 to reflect amortization of $5,000. This treatment will allow recovery of the cost but will not allow the Company to realize a return on an expense it has not yet incurred.

Second, the Company has included the 2002 rate case expense as a part of rate base in this case. Treating this expense as a capital item in rate base was addressed in the Company's 2002 case. The Commission denied the Company's request that rate case expense be part of rate base treatment and earn a return. Case No. GNR-W-02-3, Order No. 29247. There is no reasonable justification to treat rate case expenses as a rate base item. Therefore, the original amount of $2,785 for the rate case expense and $2,228 of accumulated amortization was removed from rate base. The Company's entries reflect the capitalization and amortization but they should not be included in rate base to earn a return.

Third, the Company included $5,000 in rate base as the "Current Rate Case Expense." Again, Staff has not objected to the Company recovering this expense, as amortized over five years, but it does object to this expense being included in rate base and receiving a return on the unamortized balance. The same justification for excluding this expense in the 2002 case remains today. The Commission has not in the past allowed a return to be paid for rate case expenses.

Lastly, the Company requested rate base for working capital of $3,373. This was determined by using total annual operation expense for 45 days as the working capital. ($26,984 ÷ 365 x 45). Staff proposed adjustments to operation expenses, and therefore must reduce the working cash included in rate base by $187.

When the Company's proposed rate base is reduced by Staff's proposed adjustments of $10,744, the resulting rate base is $16,801.

Company Reply: The Company, despite being denied recovery of rate case expense in rate base in its previous case, says in its reply that it was not precluded from including it in the current Application. The Company argues that the rate case cost to a small utility represents such a significant cost and drain (30% of its gross annual revenues) that it should be allowed to earn a return on the investment. Regarding the expense for water right defense the Company states it is willing to amortize these costs as proposed by Staff, but that it continues to believe these costs for a small water company are unusual and burdensome, and have an adverse effect on the Company's cash-flow requirements – and should earn a return on the unamortized balance.

Commission Findings: We have consistently found that prudent and reasonable costs for a Company to file and litigate a rate case before us are an expense properly recoverable in rates. However, this is not an item that is included in rate base to earn a return. As we have ordered in the past with numerous utilities, including this Company, the proper recovery of this expense item is to amortize over a number of years. We find that the rate case expense should be removed from rate base and recovered through an amortization of the expense for five years. Similarly, we find that the expense the Company incurred in relation to its water right is of a similar nature to the expenses incurred for its rate case. We find the expense is more properly recovered by amortization and not included in rate base where it would earn a return. Consequently we accept the proposed staff adjustments to the Company's proposed rate base and find the Company has a current rate base of $16,801 upon which it may earn a return.

B. Annual Expenses

The Company and Staff utilized a 2006 test year. The Company provided financial information for the 2006 test year showing annual operating expenses of $26,984 and total expenses of $30,675. Staff recommends allowing total annual operating expenses for the Company of $22,024 and total annual expenses of $25,491. Staff's recommended adjustments reduce contract labor for operations and maintenance, administration and general accounting, and purchased power expenses by $4,960. Staff also made adjustments in the cost recovery amortization of rate case expenses and attorney fees for defense of Company water rights, as discussed above with their removal from rate base.

1. Water Master Services. Staff's first adjustment was to reduce the Labor-Operation & Maintenance account by $2,700. This was added by the Company to pay an increase in fees for water master services, which are performed by the owner's son, an employee of Avondale Construction Company, an affiliate company. The fee amount paid by the Company for water master services has increased every year since 2003. The requested increase is 39% over the 2006 fees. Staff does not believe this sizable increase is justified. The history of increases shows this fee has increased more than 270% since 2003. Since 2003, the number of customers has increased by only 2% (41 in 2003 and 43 in 2006) or 5%. There are no changes in the operation of the system to justify any additional time or expertise. Staff's recommendation includes the previous increases in the water master fee since 2003 to reflect the 2006 cost of $6,968, still a 170% increase over 2003. Staff submits that the additional increase of $2,700 is neither justified nor reasonable.

Company Reply: The Company provided additional information in a reply to Staff comments stating that the history of payment to the affiliate company for water master fees is as follows: In 2003, $200 per month plus $2.00 per meter reading; in 2004-2005, $250 per month plus $2.00 per meter reading; in 2006, it was raised to $750 per month plus $2.00 per meter reading. The Company states, "Since 2003 the individual performing water master duties has earned a certification as a certified operator and has assumed additional responsibilities." Reply at 1-2. "It is our opinion that the $750.00 per month for overall operation, maintenance, repair and management of the water system is reasonable."

2. Bookkeeping Services. Staff's second adjustment was to reduce the Labor-Admin & Gen account by $1,200. This amount represents a portion of the fees paid to Avondale Construction for bookkeeping services. As with the water master fees, Staff does not accept the pro forma annualizing adjustment the Company has asked for in this account. The fee for bookkeeping services has increased from $2,445 in 2003 to $3,600 actual expense in 2006. Staff

checked with a bookkeeping service in the Coeur d'Alene area that provides complete bookkeeping services (preparation of bills, collection of payments, preparation of deposits, reconciliation of bank statements, payment of bills, and preparation of financial statements) for three water companies in the area. Microledger was asked what it would charge to provide complete bookkeeping services for a water company with 43 customers. A representative of the Company indicated that the fee for such a service would be approximately $250 per month, $3,000 annually. The Company requests a pro forma adjustment increasing the bookkeeping charges to $4,800 annually. Staff recommends that the actual annual fee paid by the Company of $3,600 is fair and reasonable.

Company Reply: The Company stated that the individual at the affiliate company who performs the bookkeeping service for the water company performs additional services that the local bookkeeping service referred to by Staff would not do, such as phone inquiries from customers, dispatching service personnel to respond to problem reports, preparing correspondence with numerous outside business contacts, and generally performing all duties expected of a manager for a small business. The Company stated it feels the requested $400 per month is "quite reasonable." Reply at 2.

Commission Findings: We find the actual cost from the 2006 test year for water master and bookkeeping services to be reasonable and supported on this record. The test year amounts represent substantial increases over the previously included expenses for these items from the last rate case. Transactions with unregulated affiliate companies must receive a greater degree of scrutiny, and the Company has the burden to come forward with substantial evidence establishing that increases and amounts paid to unregulated affiliate companies are just, reasonable, arms-length, least-cost transactions. The additional increases requested by the Company are not supported. We find the actual test year amounts for water master ($6,968) and for bookkeeping service ($3,600) to be just, reasonable, and supported on this record.

3. Lost and Unaccounted-for Water. In 2006 the Company reported that its lost and unaccounted-for water was 19% of the total production. This is measured by comparing water produced versus water that was metered and billed. Staff recommended that this amount of loss is excessive and unacceptable and that the Company needs to correct this situation by reducing losses to the levels achieved in previous years.

The Company explained that a number of factors could have combined to account for the abnormal water loss. There was extensive road construction in the area during the year and the Company determined that road crews were taking water from the hydrants. To correct this problem and prevent future losses, the Company purchased and installed locks on all the hydrants. In addition, the Company reported that there was unmetered irrigation plus normal line loss. Staff agrees that these factors could have contributed to this loss, however, regardless of the reasons for the large disparity, it is ultimately the Company's responsibility to minimize a loss on their system. In 2005, total losses in unaccounted-for water were less than 4%, which Staff considers to be acceptable. The other factors contributing to the excessive losses have been corrected or should be corrected.

Staff recommends that operating expenses, specifically for the purchased power and fuel cost associated with excessive unaccounted-for water, needs to be adjusted. Staff believes a 4% allowance for losses is reasonable, and considers the additional 15% to be excessive. The Company reported that the expense for purchased power and fuel was $7,065, and 15% of this amount is $1,060. Consequently, Staff recommends that the revenue requirement be reduced by $1,060.

Company Reply: The Company opposes Staff's adjustment for excessive lost and unaccounted-for water. First, the Company states that Staff's adjustment, rather than reducing the cost of lost and unaccounted-for water to 4%, actually reduces it to 1.15%. Secondly, the Company points out that in a recent case (Spirit Lake East, SPL-W-06-01) Staff stated that 10% to 15% of leakage was acceptable for a small water system. The Company proposed that the Commission adopt the mid-point between 10 and 15% of 12.5%, stating that despite best efforts the water system ages and increased losses should be expected to increase from the very low levels when the system was new.

Commission Findings: We find the Company's 2006 lost and unaccounted-for water of 19% of total production to be excessive. We do not agree with the deduction proposed by Staff. Based upon Staff's position in prior cases, we find that an allowance of 10% for lost and unaccounted-for water to be reasonable in this instance. Consequently, rather than a deduction to the purchased power and fuel expense representing 15% of the lost and unaccounted-for water, as proposed by Staff, we find that a deduction of 9% is appropriate. We do note that all indications are that this water system is of sound design, good condition, and well-maintained, unlike some other older, aging water systems that we encounter. Diamond Bar has not had any service-related complaints lodged with the Commission. The Company has a history from its annual reports filed with us showing a much lower lost and unaccounted-for water level of about 4%. We would expect the 19% level to be closer to the 4% in the future, as the Company has installed hydrant locks to address stolen water, and any issues with unmetered irrigation should be accounted for in the future.

4. Rate Case Expenses. The Company received authority from the Commission in its previous rate case, GNR-W-02-03, to amortize rate case expenses of $2,785 over a five-year period. The Company amortized $557 annually for the years 2003, 2004, 2005, and 2006. The Company has also requested that it be allowed to amortize its estimated expenses of $5,000 for the current rate case over a three-year period. As part of total expenses, the Company included one-year's amortization of the prior case, $557, and $1,667 as the annual amortization of the $5,000 current rate case expense over three years. The total of these two amortizations equals the $2,224 annual expense requested as part of total expenses.

First, Staff recommends reducing this annual expense by $557, the amount for the amortization of the prior rate case expense. Because rates for this case will not go into effect until later this year, the final amortization installment of $557 for 2007 should already be booked and should not be included as an ongoing expense. Staff has made a pro forma adjustment excluding this amount from future rates. Second, Staff accepts the amount of $5,000 as a reasonable amount for rate case expenses in this case. However, Staff does not concur with a three-year amortization of these expenses. A five-year amortization was authorized for the prior rate case expenses and five years turned out to be a fairly accurate period between rate cases. Rate case costs are higher in this case than in the last rate case and allowing the expense to be amortized over three years unnecessarily accelerates recovery of rate case expenses. Therefore, Staff recommends allowing an annual expense for the current rate case expenses in the amount of $1,000 ($5,000/5). This adjustment reduces the Company's request for amortization expense by $1,224.

Commission Findings: We find that the amortization for the prior rate case ($557) should be excluded from future rates as set forth above. Additionally, consistent with our decision above to exclude rate case expense from rate base, we find that it is properly treated as an expense to be recovered through a five-year amortization.

C. Rate of Return/Capital Structure

Both the Company and Staff recommend a rate of return of 12%. Staff agrees with the Company's treatment of the debt from the owners as common equity in the Company. The Company's capital structure is deemed to be 100% common equity. Staff noted that the Commission in several recent small water cases has allowed a 12% rate of return. Stoneridge Water Company in Case No. SWS-W-06-01, Order No. 30342; Falls Water Company in Case No. FLS-W-05-01, Order No. 30027; Capitol Water Company in Case No. CAP-W-06-01, Order No. 30198; Spirit Lake East in Case No. SPL-W-06-01, Order No. 30279. Upon Staff's inspection, the Company's system appeared to be of sound design, good condition, and well-maintained.

Commission Findings: On this record, the Company appears to have a well-built and maintained water system that provides a quality product to its customers. A 12% rate of return is consistent with that granted recently to other small water companies providing adequate service to its customers. We find that a 12% rate of return is appropriate for this Company.

D. Revenue Requirement Calculation

Commission Findings: We find that using the rate base, rate of return, expenses, and amortizations ordered above, the Company's revenue requirement should be calculated as follows:

Return on Rate Base	$2,016	
Annual Expenses	$22,550	
Depreciation	$1,169	
Grossed-up Taxes	$569	
Water Right Amortization	$1,000	
Rate Case Amortization	$1,000	
Regulatory Fee	$255	
Property Taxes	$43	
Revenue Requirement		$28,602

We find the Company's annual revenue requirement to be $28,602.

RATE DESIGN

The Company and Staff each proposed different rate designs, not only based upon different rate base and revenue requirements, but also based upon different monthly customer charges, different minimum monthly amounts of water included with the customer charge, and different commodity charges for each 1,000 gallons of usage over the monthly minimum. Additionally, there were different rate designs proposed by customers.

A. Customer and Commodity Charge

1. The Company. The Company proposed an increase in the base customer charge from $21 to $38 per month, and an increase in the commodity charge from $.45 to $.52 per 1,000 gallons used in excess of 7,500 gallons per month. The Company's rate design was developed to meet its proposed revenue requirement of $34,912. In its Application the Company stated,

> The Company proposes to increase the amount of revenue collected through the base rate (including the first 7,500 gallons) from 58.66% of total revenues to 75%. This shift is necessary to level out the Company's cash flow need to meet its fixed costs during winter months. This shift also smoothes customers annual water costs over the year and decreases some of the summer spike in their bills.

Application at 5.

The Company also stated in its reply that it found Staff's proposed rate design "unacceptable." Reply at 5. The Company went on to state,

> The base charge of $29.00 per month would only provide revenues in the winter months of $1,247 per month. This revenue level will not provide enough revenue to cash flow the Company's fixed monthly costs to say nothing of the variable costs including pumping power costs. . . [The Company's] rate design would provide monthly revenues from base rates of $2,150, enough to pay the Company's fixed costs in winter months.

Id. The Company goes on to state that it is not suggesting another rate design in its reply but rather it requested that the Commission decide based on the evidence presented and direct the Company and Staff to work together to develop a rate design based on Commission direction regarding the relationship between base rates and commodity rates. *Id.*

2. The Staff. Staff reviewed the available usage data and developed its rate design to generate the Staff-recommended revenue requirement of $28,076. Usage was established

based on the actual domestic and irrigation usage for the year based upon the Company's actual meter readings. Staff recommended an increase in the base charge from $21 to $29, and an increase in the commodity charge from $.45 to $.73 per 1,000 gallons used in excess of 4,000 gallons per month. In making this recommendation Staff considered the customers' actual usage levels and stated concerns that they were paying for water not used; Staff's desire to increase the water conservation price signal to customers; the Company's monthly cash flow needs; and the relative relationship to the rates of other regulated water companies in the north Idaho area.

Staff reported that at the public workshop customers voiced concern over the 7,500 gallons included with the customer charge. Customers stated they were concerned that they were paying for water they did not use. Staff found in its analysis that a number of customers did not use the total number of gallons allotted (7,500) during the winter months. In Staff's analysis of actual consumption, it was determined that the average usage during the winter months of October 2005 through March 2006 was 5,579 gallons per month. The median was determined to be 4,678 gallons per month. Therefore, Staff proposed in its rate design to decrease the 7,500 gallons per month to 4,000 gallons per month to address this concern and come closer to a level at which customers are paying for what they individually use.

Staff considered both the customers' and the Company's concerns and proposed a $29 minimum charge including the first 4,000 gallons used per month and $.73 per 1,000 gallons thereafter for all the water used by each customer. Staff stated that by keeping the minimum charge lower and increasing the commodity charge, it sends a more appropriate water conservation price signal to customers while at the same time allowing the Company sufficient cash flow to remain viable. Additionally, Staff reviewed the existing commodity and minimum charge rates for regulated water companies located in the surrounding area and found the proposed rates to be generally in alignment.

3. <u>The Customers</u>. Several customers made specific rate design requests. One customer submitted a fairly detailed rate design analysis based upon analysis of actual usage and revenue requirement. This customer recommended an increase in the base charge to $23 per month and an increase in the commodity charge to $.60 per 1,000 gallons. This proposal would include 90,000 gallons per year with the base charge, and consequently the $.60 per 1,000 gallons commodity charge would be billed only on gallons in excess of 90,000 annually. This rate design was calculated to meet a revenue requirement of $20,762. This request was modified

in a reply to Staff comments where the customer questioned primarily the gross-up for taxes and the inclusion of 4,000 gallons per month with base rates. The customer removed the gross-up for taxes from the revenue requirement because they state that the reality is that the applicant is an LLC and has an entirely different structure than the assumed C Corporation used for tax purposes. The rate structure was modified to $27 monthly "meter" or base charge with the first 90,000 gallons per year billed at $.45 per 1,000 gallons, and any gallons over 90,000 per year billed at $.75 per 1,000 gallons. This customer referenced the rate design for Stoneridge Water Company, where there is no base amount allowance of water as "the model Staff should be following."

At the public hearing there were two other specific rate design requests: (1) a base charge of $29 per month, and a commodity charge of $.45 per 1,000 gallons used in excess of 7,500 gallons per month; and (2) a base charge of $29 per month, and a commodity charge of $.60 per 1,000 gallons used in excess of 10,000 gallons per month. Customers also requested that the commodity charge be assessed as an overage charge on a yearly, not monthly, basis.

<u>Commission Findings</u>: The Commission recognizes and commends customers for their submission of thoughtful rate design proposals. However, the proposals made at the public hearing do not generate enough total revenue to meet the Company's approved revenue requirement. A calculation using 2006 meter readings results in: (1) recommended base charge of $29 per month and a commodity charge of $.45 per 1,000 gallons over 7,500 per month equals a total estimated annual revenue of $22,221.54; (2) a base charge of $29 per month and a commodity charge of $.60 per 1,000 gallons over 10,000 per month equals a total estimated annual revenue of $23,866.72. A rate design where the commodity charge is calculated on an annual basis, as suggested by some, almost completely removes the intended conservation signal inherent in customers paying for what they actually use. Some customers recommended increasing the monthly allowance of water to as much as 10,000 gallons per month, others recommended reducing it to as little as 0. Staff's reasoning in lowering the base monthly amount of water allowance is appealing; however, we believe the reduction from 7,500 to 4,000 gallons per month goes too far. Instead, we find that the monthly allowance should be 5,500 gallons, which coincides with the average winter usage, which can be considered a "minimum."

We find that in order for the Company to collect its authorized revenue requirement rates be increased as follows: $29 monthly base charge, and $.80 per 1,000 gallons of use per month over 5,500. This rate design will allow those who use little water to possibly not incur the additional commodity charge of $.80 per 1,000 gallons, while allocating the additional cost to those who use more. We find this rate design to be just, reasonable, and supported by the record.

OTHER PROPOSED TARIFF CHANGES

A. Hookup Fee

The Company requested to increase the connection fee for new customers where a service line tap and meter are already in place from $200 to $310. This fee includes the cost of the meter and the estimated labor and materials required to install the meter. The Company states this charge is intended to recover actual costs only. Staff recommended that this charge was reasonable and within the range charged by other small water companies for this service.

The Company also requested authorization to charge $2,500 for a new connection where there is no main line tap or meter box, and an additional $3,000 (totaling $5,500) if it requires crossing a road. Again, the Company states that these amounts are to recover actual costs only and not contribute to its earnings. The Company also stated that by obtaining approval for the requested installation charges it would ensure that the rates of the Company's existing customers are not used to subsidize these costs.

Staff reviewed the Company's estimates for this work that were provided with its Application. With the exception of the bid quotation from Consolidated Supply Company, displaying the cost of parts, the estimates from Avondale Construction and On-Site Excavating Inc. provide insufficient detail for the Staff to fully evaluate the labor and equipment costs. However, in reviewing other connection fees from water companies in the surrounding area, Staff believes the requested amount of $2,500 appears to be consistent and reasonable. Therefore, Staff recommends allowing the connection fee of $2,500 to connect a property that does not have a service line tap or meter box in place. However, with regard to the additional charge of $3,000 for crossing a road, because Staff believes this charge could be significantly different for each installation, Staff recommends that the Company be allowed to charge the customer the actual cost for a road crossing service connection to be determined on a case-by-case basis. In addition, to ensure that the lowest cost for this service is obtained, Staff recommends that, rather than pay the Company's charge, the customer, at their option, may hire their own approved contractor to perform the work.

Commission Findings: We find the following hookup charges to be reasonable and necessary: (1) an increase in the connection fee for new customers where a service line tap and meter box are already in place from $200 to $310; (2) a hookup fee where there is no service line tap or meter box of $2,500; and (3) an additional charge to the $2,500 if the service line tap must cross a road – to be determined on a case-by-case basis. With regard to the additional charge for crossing a road, because it could possibly be a substantial fee, we find it reasonable to allow the customer the option of, rather than paying the Company's charge, to hire their own approved contractor to perform the work. We find that the above charges are based upon the actual cost required to perform the work, and are generally consistent with what similarly situated utilities charge for the same type of work.

B. NSF Fee

In response to Staff inquiry, the Company stated that although it had not been necessary to apply any non-sufficient funds (NSF) charges to customers in 2006, it would like to collect an NSF charge, if needed. However, there is no NSF charge in the Company's tariffs. Staff does not oppose the collection of such charges and recommends that an NSF charge of $20 be included in the Company's tariff.

Commission Findings: We find it reasonable to allow the Company to charge a $20 NSF fee, and to include the same in its tariff.

C. Customer Billing Statement

Upon review of the Company's actual customer billing statements, Staff found that the statements did not contain all required information as set forth by the Commission's Utility Customer Relations Rule 201. Consequently, Staff recommends that the Company revise its billing statements to include the following: Billing date; past-due amounts, if applicable; the minimum charge; number of gallons used in excess of the allowance; the rate per 1,000 gallons used; and the result of the computation (number of gallons times rate) to come up with the current monthly total. IDAPA 31.21.01.201.

Commission Findings: We find that the Company should revise its customer billing statements to be consistent with Rule 201.

ULTIMATE FINDINGS OF FACT AND CONCLUSIONS OF LAW

Diamond Bar Estates Water Company is a water corporation providing water service to the public within the State of Idaho, *Idaho Code* §§ 61-124, 61-125, and is operating as a public utility. *Idaho Code* § 61-129.

The Commission has jurisdiction over this matter as authorized by Title 61 of the Idaho Code, and more particularly *Idaho Code* §§ 61-501, 61-502, 61-503, 61-520, 61-523.

As set out in the body of this Order, the Commission finds that the existing rates are unreasonable. The approved rates set forth in this Order are just and reasonable. *Idaho Code* § 61-622.

ORDER

IT IS HEREBY ORDERED that Diamond Bar Estates Water Company's rate base be established at $16,801, with a 12% rate of return, annual expenses of $22,550, and a revenue requirement of $28,602, as stated above.

IT IS FURTHER ORDERED that new rates are approved establishing a base charge of $29 per month, with a commodity charge of $.80 per 1,000 gallons of use over 5,500 per month.

IT IS FURTHER ORDERED that the connection fee for new customers where a service line tap and meter box are already in place is authorized at $310, a hookup fee where there is no service line tap or meter box is authorized at $2,500, and an additional charge to the $2,500 is authorized if the service line tap must cross a road – to be determined on a case-by-case basis. The customer shall have the option, rather than paying the Company's charge, of hiring their own approved contractor to perform the work related to the additional hookup charge for crossing a road.

IT IS FURTHER ORDERED that the Company is authorized to include a $20 NSF charge in its tariff.

IT IS FURTHER ORDERED that the Company revise its customer billing statements to be consistent with Rule 201. The Company and Staff shall work together to ensure the proper revisions are made.

IT IS FURTHER ORDERED that the Company submit tariffs conforming to the new rates and charges as set forth in this Order. New rates will be effective once the Company's conforming tariffs are filed and approved.

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 with regard to 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 19th day of October 2007.

Paul Kjellander

PAUL KJELLANDER, PRESIDENT

Marsha H. Smith

MARSHA H. SMITH, COMMISSIONER

Mack A. Redford

MACK A. REDFORD, COMMISSIONER

ATTEST:

Jean D. Jewell

Jean D. Jewell
Commission Secretary

O:DIA-W-07-01_dw2