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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF
UNITED WATER IDAHO INC., TO AMEND
ITS RULES AND REGULATIONS TO
IMPLEMENT A BUDGET BILL OPTION

Case No. UWI-W-04-01

**REPLY TO COMMENTS OF
COMMISSION STAFF**

COMES NOW United Water Idaho Inc., (“United,” or “the Company”) and in Reply to the Comments of the Commission Staff dated March 3, 2004 states as follows:

In General:

United appreciates both Staff’s thorough review of the Company’s Budget Bill proposal and Staff’s overall support of the proposal. With one exception, discussed below, United concurs in the Staff Recommendations and in Staff’s proposed revisions to United’s Rules and Regulations (Attachment A to Staff Comments).

Deferral of Program Costs:

The Comments of the Commission Staff oppose the Company’s request for an accounting order permitting deferral of program operation costs. (Staff Comments pg 5)

In its original Application United stated:

United desires to implement the Budget Bill program as soon as practicable. There will, however, be certain costs associated with implementation. United estimates those costs to be approximately \$72,000, assuming that 15% of its residential customer base enrolls in the program. The \$72,000 represents the annual costs of the program and is composed of additional billing, postage and payment processing expenses associated with the Budget Bill program.

This paragraph has been the subject of some confusion. The quoted \$72,000 in cost is the annual cost of operating the program assuming 15% of United's customers participate. It is not the initial start-up cost. United estimates operating costs between start of the program and the approximate intended effective date of United's revised rates resulting from its next general rate filing will be approximately \$28,000.

As noted above, at the time of filing the Application it was United's position that the Company would implement the program immediately if the Commission permitted deferral of start-up costs, but would delay implementation until a time closer to the next general rate filing if deferral was not permitted.

During the comment period in this proceeding both United and the Commission Staff have received numerous positive comments from customers who are looking forward to a prompt implementation of the program. United is hesitant to delay implementation for reasons not likely to be understandable to customers who are expecting the program to be available in the near future. Accordingly, United will implement the program promptly after receiving an Order approving it, regardless of whether the Commission approves the deferral.

United, however, respectfully requests that the Commission permit deferral of the operation costs for the following reasons:

- As noted in its Application, and not disputed by Staff, the program has several features that will be beneficial to customers:
 - United's customer service representatives routinely and frequently receive inquiries from residential customers asking about the availability of a budget bill payment program. United is of the opinion that there is significant customer demand for such an option.
 - The single greatest category of calls received from residential customers by United's customer service representatives is customers requesting to make payment arrangements. The volume of these requests increases significantly during the irrigation season with its consequent higher bills. A Budget Bill program would address the need

expressed by residential customers of having available the option to, on an annual basis, levelize payments for water service.

- For many residential customers, over 60% of the annual bill is comprised of the two summer period bi-monthly bills. This can lead to customer hardship. A Budget Bill program will allow customers a significantly less burdensome method to deal with seasonal fluctuation of their water bill.

- United's rates for water service have, for approximately ten (10) years, contained a summer consumptive rate (from May 1 through September 30) that is 25% higher than the winter rate. In United's opinion, the residential customers understand and react to the price signal inherent in the seasonal rate design. United believes a Budget Bill program would not significantly dampen such a signal, while providing the residential customer flexibility to levelize their payments as they are permitted to do with energy providers.¹

- United currently reads meters and renders bills on a bi-monthly basis. Conversion to actual monthly reading and billing for all customers would ease the burden of high bi-monthly summer bills; however, the expense is prohibitive. United estimates monthly reading and billing would involve an increase in operating expense of approximately \$1,100,000 annually. This expense increase is due to additional labor and labor overhead expense, transportation needs, billing and postage expense, as well as payment processing expense. A Budget Bill program provides a significantly lower cost alternative to monthly reading and billing.

- A Budget Bill program allows residential customers to plan and budget water usage more effectively than the current "pay as you go" basis. Instead of being faced with a large summer bill that may be extremely burdensome, customers will be able to make less stressful, longer term decisions about water consumption and how it fits into their personal budget.

- The program will not generate any new revenue for the Company, but the Company will incur cost, not off-set by new revenue, to operate the program. As a matter of fairness, United should have the opportunity, through a deferral, to recover the accumulated cost of operating a beneficial program until the costs are included in allowed rates.

- As noted above United intends to make its next general rate filing in approximately eight or nine months. There is little risk to rate payers that the amount of the deferral could mushroom to worrisome levels before there is an opportunity for review of the costs. In this

¹ In fact, Budget Bill may enhance the price signal. As Staff noted in its Comments, "...the price signal may actually be strengthened because customers will be billed monthly during under the Budget Bill program."

regard, United certifies that it will maintain adequate records to permit audit and review of the costs.

➤ Staff's opposition to a deferral appears to be based on the contention that, "Among the expected benefits of a Budget Bill program is that the Company will receive a higher than usual revenue stream during the winter months when revenue is typically at its lowest." (Staff Comments pg 5). This, of course, overlooks the fact that in summer months United's cash-flow will be below current levels. In fact, United anticipates that over the course of a full year Budget Bill will have no impact from a cash-flow point of view. United does not view the Budget Bill program as a cash-flow enhancement measure.

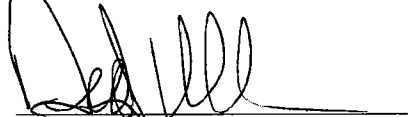
Conclusion:

United respectfully requests:

1. That the Commission enter its Order approving the Budget Bill program, as modified by Staff recommendations;
2. That the Commission enter its Accounting Order approving deferral and recovery of operating costs, subject to review for reasonableness in the next general rate proceeding.

Respectfully submitted this 17 day of March, 2004.

UNITED WATER IDAHO INC.



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