

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL STAFF**

FROM: SCOTT WOODBURY

DATE: MARCH 16, 2004

**RE: CASE NO. UWI-W-04-1 (United Water)
RESIDENTIAL "BUDGET BILL" PAYMENT PROGRAM**

On February 3, 2004, United Water Idaho Inc. (United Water; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting authority to amend its Rules and Regulations to establish a "Budget Bill" payment program for its residential customers.

The proposed Budget Bill program has the following features:

- The program will be available to all residential customers residing in a premise that has six (6) actual historical bills. Customers must be in current account status with no past due amounts;
- Enrollment would be permitted at the convenience of the residential customer with no set enrollment period;
- No interest will accrue on positive or negative balances;
- Residential customers may be removed from the Budget Bill program for failure to timely pay the agreed Budget Bill amount;
- United Water may perform mid-term adjustments to the amount of the Budget Bill payment due to rate changes; extreme weather impact or other significant unforeseen circumstances (major leak, etc.);
- Upon enrollment the customer's payment amount under the Budget Bill program will be calculated based on twelve (12) months' history (six bi-monthly reads) of consumption at the premises. History may be based upon the usage of the prior customer at the location. The customer will receive a Budget Bill monthly. An annual

reconciliation will be performed with negative or positive balances, within limits, rolled forward into the next Budget Bill.

United Water believes providing a "Budget Bill" program to its residential customers will be in the public interest for the following reasons:

- United Water is of the opinion that there is a significant customer demand for such an option.
- 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.
- United Water'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 the Company's opinion, the residential customers understand and react to the price signal inherent in the seasonal rate design. United Water believes that a Budget Bill program would not significantly dampen such a signal, while providing the residential customer flexibility to levelize their payments.
- United Water 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 bi-monthly summer bills; however, the expense is prohibitive. United Water estimates monthly reading and billing would involve an increase in operating expenses of approximately \$1,100,000 annually. The Budget Bill program provides a significantly lower cost alternative to monthly reading and billing. Budget Bill program participants will receive monthly billing statements, although their meters will continue to be read on a bi-monthly basis.
- A Budget Bill program allows a residential customer to plan and budget water usage more effectively than the current "pay as you go" basis.

United Water states that it will advertise the availability of the Budget Bill program through news releases, bill messages, bill stuffers, publication of information on the Company's website, the Company's "on-hold" telephone message and through direct customer service representative contact. Residential customers will be permitted to enroll in person at United Water's Boise Office (8248 W. Victory Road), by telephone, by e-mail to a dedicated address or by voice mail to a dedicated voice-mail box.

United Water estimates costs associated with program implementation to be approximately \$72,000, assuming that 15% of its residential customer base enrolls in the

“Budget Bill” program. The \$72,000 represents the annual costs of the program and is comprised of additional billing, postage and payment processing expenses. The Company requests an accounting order permitting the deferral of these additional costs for recovery in the Company’s next general rate case, subject to audit and review for reasonableness. In the absence of deferral, the Company will likely defer implementation of the Budget Bill program to coincide with the next general rate case.

On February 10, 2004, the Commission issued Notices of Application and Modified Procedure in Case No. UWI-W-04-1. The deadline for filing written comments was March 3, 2004. Timely comments were filed by Commission Staff and a number of the Company’s customers. Customer support ranges from enthusiastic to support only if participants bear the program costs. Customer opposition ranges from those who are satisfied with the current billing system to a belief that implementation of a level pay will dampen the conservation message and encourage customers to waste water on unneeded landscaping. The Commission Staff supports the general concept of Budget Bill but proposes limiting the program to customers with 12 months consumption history. Staff also opposes the Company’s request for an accounting Order permitting deferral of program implementation costs.

Staff Comments

The Commission, a decade ago, set summer water rates 25% higher than winter rates in order to send customers a strong conservation price signal to encourage water conservation during the summer months when the peak water demand has to be met. In its comments Staff recognizes that bi-monthly billings fail to provide a timely “price signal” of the higher summer rate. Staff contends that monthly statements of Budget Bill participants can be used to remind customers that summer rates are in effect and encourage conservation earlier than the bi-monthly statements do.

Staff is reluctant to support the Company’s plan to set a Budget Bill amount based upon a criteria other than the customer’s own water usage given the fact that the watering habits of one individual has little to do with another’s. Because United Water cannot provide the new resident ongoing historical comparative usage on statements to enable the customer to determine whether his or her own usage is in line with that of the prior customer, Staff cannot support a Budget Bill based upon premises usage and therefore recommends that Budget Bills be limited to customers who have lived at the current residence for at least 12 months.

The Company in its Application did not specify how it would monitor participating customers' usage to determine whether actual usage differs substantially from estimated usage. Staff recommends that usage be tracked throughout the summer months. If actual usage changes significantly from historical usage, the Company may need to adjust the monthly Budget Bill amount. For United Water, leaks or unintentional diversion of water into a dual irrigation system are likely to result in unusually high bills. At a minimum, Staff recommends that the Company review usage in excess of 25% of historical usage during the summer months. The Company can determine, after consulting with the customer if necessary, whether the level pay amount should be adjusted. Staff suggests this change in order to clarify that Budget Bill amounts should be revised due to significant changes in rates or usage.

United Water requests an accounting Order permitting deferral of the estimated costs associated with implementation of the Budget Bill program. United Water expects to seek recovery of the deferral in its next general rate case, subject to audit and review for reasonableness. Staff notes that the estimated \$72,000 cost is not a one-time expense for implementation of the program, but represents the estimated annual cost of running the program, assuming a 15% participation level. Projected cost of the program is less than \$1.00 per customer annually. The actual cost of the Budget Bill program is not known and measurable at this time. It is unlikely, Staff believes, that in the first year of the program that 15% of customers will participate. In Staff's opinion, the estimated annual expenditures for this program are not appropriate for deferral. The Company, Staff contends, should implement the program with expenses booked as such. All the associated costs and benefits will need to be explored and reflected in the annual rate case expense review. Among the expected benefits of a Budget Bill program, Staff contends, is that the Company will receive a higher than usual revenue stream during the winter months when revenue is typically at its lowest.

Staff recommends that the Commission:

1. Authorize United Water to offer a Budget Bill program to customers who have had service at their location for at least 12 months and do not have a past-due balance on their account;
2. Deny the Company's request to allow the use of a prior customer's consumption history at a premises in order to establish a Budget Bill amount for the current residence;
3. Require United Water to track program participants' consumption in order to identify changes in water consumption;

4. Require United Water to monitor participating customers' usage throughout the summer. If usage is significantly different from historical consumption (plus or minus 25%), Budget Bill amounts should be reviewed with a customer adjusted as necessary;

5. Deny United Water's request for an accounting Order permitting deferral of \$72,000 program implementation costs; and

6. Approve the Company's proposed tariff with Staff's modifications as reflected in Staff Comments, Attachment A.

Company Reply

On March 12, 2004, United Water filed a Reply to Staff Comments. With one exception, i.e., deferral of program costs, United Water concurs in Staff's recommendations and in Staff's proposed revisions to the Company's Budget Bill program and related rules and regulations.

United Water notes that the quoted \$72,000 in costs is the annual cost of operating the program assuming 15% of United Water's customers participate. It is not the initial start-up cost. The Company estimates operating costs between the start of the program and the approximate intended effective date of United Water's revised rates resulting from its next general rate filing will be approximately \$28,000. In the Application, United Water's position was 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. Noting the numerous positive comments from customers who are looking forward to a prompt implementation of the program, United Water states that it 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 Water will implement the Budget Bill program promptly after receiving an Order approving the program, regardless of whether the Commission approves the deferral.

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

- As noted in its Application, the program has several features that will be beneficial to customers.
- The program will not generate any new revenue for the Company, but the Company will incur costs, not offset by new revenue, to operate the program. As a matter of fairness, United Water believes that it should have the opportunity, through a deferral, to recover the accumulated costs of operating a beneficial program until the costs are included in allowed rates.

- United Water notes its intention to make a general rate filing in approximately eight or nine months. Accordingly, the Company contends, that there is little risk to ratepayers that the amount of the deferral could mushroom to worrisome levels before there is an opportunity for review of costs. In this regard, the Company certifies that it will maintain adequate records to permit audit and review of the costs.
- The Company notes that Staff in its opposition to a deferral appeared to be of the belief that among the expected benefits of a Budget Bill program, the Company would receive a higher than usual revenue stream during winter months when revenue is typically at its lowest. This, the Company contends, overlooks the fact that in summer months United Water's cash flow will be below current levels. In fact, the Company anticipates that over the course of a full year, the Budget Bill program will have no impact from a cash-flow point of view. The Company does not view the Budget Bill program as a cash flow enhancement measure.

United Water requests that the Commission approve the Budget Bill program, as modified by Staff recommendations. The Company renew its request for an accounting Order approving deferral and recovery of program operating costs, subject to review for reasonableness in the Company's next general rate proceeding.

Commission Decision

United Water has filed an Application requesting approval of a proposed Budget Bill payment program. Customers in comments both support and oppose the program. Staff recommends that the program be approved with proposed modifications and recommends that the Company's request for a deferral accounting Order be rejected. The Company in Reply Comments concurs in Staff recommendations and in Staff's proposed revisions to the Company's rules and regulations with one exception, i.e., deferral of program costs.

- Does the Commission find it reasonable to approve the Company's proposed Budget Bill payment program with Staff recommendations and revisions?
- Should the Company's request for an accounting Order permitting deferral of program implementation costs be approved or denied?

Scott Woodbury

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