

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF ALGOMA WATER)
COMPANY'S APPLICATION FOR) CASE NO. AWS-W-07-01
APPROVAL TO SELL THE WATER)
COMPANY AND FOR AN ORDER)
AUTHORIZING INCREASES IN THE) ORDER NO. 30567
COMPANY'S RATES AND CHARGES FOR)
WATER SERVICE.)

In July 2007, Algoma Water Company filed an Application seeking Commission approval to sell the Company (and transfer its Certificate of Public Convenience and Necessity No. 396) to Mr. Robert J. Carrier. In addition to the sale of the Company, Algoma requested a significant increase in its rates for water service. Algoma is a small water company serving approximately 30 customers near Sandpoint, Idaho. The Company offers unmetered, flat-rated monthly service.

On March 27, 2008, Algoma amended its request to increase rates. The Company proposed to increase its current flat rate for residential service from \$17.59 per month to \$36.00 per month. The Company proposed to increase its monthly commercial rate from \$28.15 to \$54.00.

The Commission Staff was the only other party to participate in the proceeding. Staff performed an audit and filed comments on April 25, 2008. Staff recommended that the Commission approve the sale of the Company and transfer Certificate of Public Convenience and Necessity No. 396 to Mr. Carrier. In addition, Staff recommended that the Commission approve new flat rates consisting of \$27.00 per month for residential customers and \$44.50 per month for commercial customers.

Having reviewed the comments of the Staff, customers and the testimony at our public hearing, the Commission authorizes the sale of Algoma Water Company to Mr. Carrier (including the transfer of Certificate No. 396). The Commission also authorizes the Company to increase its flat rates for residential and commercial customers to \$27.00 and \$44.50, respectively. These rates will result in an annual revenue increase of approximately \$4,000 over its revenues in 2007.

BACKGROUND

In its initial Application, Algoma Water maintained that it has been many years since the last rate increase. Algoma Water has made extensive repairs to its system during the last two years and anticipates additional major repairs. The Company stated that it is operating “in the red with negative net income.” In its Application Algoma proposed to increase its monthly flat rates for residential service from \$17.59 to \$36.00, and for commercial service from \$28.15 to \$40.00.

On August 13, 2007, the Commission issued a Notice of Application and set a deadline for intervention. Order No. 20405. No persons petitioned to intervene. The Commission then issued a Notice of Parties on September 4, 2007. Thereafter, the Company and Staff engaged in protracted discovery. On March 27, 2008, the Company requested that its initially proposed rates be increased. In response, on April 11, 2008, the Commission issued a Notice of Amended Application and a Notice of Public Hearing. Order No. 30526.

Staff conducted a public workshop in Sandpoint on April 22, 2008, and filed its written comments on April 25, 2008. The Company did not file a rebuttal to Staff’s comments. Thereafter, the Commission held its public hearing in Sandpoint on April 29, 2008. Two persons testified at the public hearing. One customer objected to the size of the proposed increase in rates. The other witness was a representative of the Sagle Valley Water and Sewer District (Sagle Valley or District). The District objected to the sale of Algoma Water to any entity other than the District. In addition, several customers filed written comments objecting to the amount of the proposed increase in rates.

THE APPLICATION

A. Transfer of Ownership

In the Application, Mr. Greenwood proposed to sell Algoma Water (and apparently three non-regulated sewer systems) to Mr. Carrier for approximately \$161,000. Mr. Carrier submitted a financial statement and indicated that he has a background in real estate and “income producing business management.” Mr. Carrier has been investing in Bonner County since 2004. The Application stated that Mr. Carrier possesses the financial ability to assume responsibility for the Algoma Water System.

The Company submitted an abbreviated business plan that explains how Mr. Carrier intends to incorporate Algoma Water into his other businesses in Idaho. Staff expressed

concerns about the comingling of funds between Algoma and the three community sewer systems in Bonner County that Mr. Carrier owns and operates. Although a review by Staff did not uncover any affiliated transactions between Algoma and the unregulated sewer systems, Staff cautioned the Company that when purchasing equipment for maintenance and repairs, the cost of such equipment should be allocated among all companies receiving a benefit from the purchase.

Mr. Carrier intends to maintain the current system operator, bookkeeper and pump supplier. The sale of Algoma Water Company was finalized on April 1, 2007, and Mr. Carrier has been operating the system since that date. The system has been operating without customer complaints and the same personnel are in place to operate the business. Staff believes Mr. Carrier possesses the financial wherewithal to continue the uninterrupted obligations of Algoma Water Company and believes it serves the public interest to approve the sale. Based on the foregoing, Staff recommended approval of the sale of Algoma Water Company to Mr. Carrier.

B. Revenue Requirement

The Company's current rate structure was approved by the Commission in May 2002. Order No. 29013. The current rates consist of flat rates of \$17.59 per month for residential service and \$28.15 per month for commercial service. Following its audit, Staff calculated that the current rates are not sufficient to cover the operating costs of the system. The Company has operated at a loss for three of the past four years.

The Company's financial statements and 2007 Annual Report indicate total annual expenses of \$10,803.34. Staff utilized the expenses for 2007 as the test year expenses for determination of the annual revenue requirement with the exception of two adjustments. The first adjustment removes expenses of \$17.55 for penalties paid by the Company. Historically, the Commission has ruled that late fees and penalties are not expenses that should be passed on to customers and recovered in rates. The second adjustment is to Repairs and Maintenance Expense. The Company expended \$5,131.46 for repairs in 2007, the bulk of which was for labor to repair a leak in the water main. A similar leak occurred in 2006. Major repairs are expected this summer with an estimated cost of \$4,000. Staff believes that \$4,000 is an appropriate amount for annual maintenance and repairs. The Company did not file rebuttal comments or otherwise object to Staff's adjustments.

In setting rates for small water companies, Staff typically adjusts Water Testing Expenses to recover a multi-year average of annual testing expenses. Given the multiple

changes in ownership of Algoma, historical records for water testing were not available. However, based on information obtained from the Idaho Department of Environmental Quality, Staff recommended an annual level of Water Testing Expense of \$615.89.

The purchase price of the system when purchased by Mr. Greenwood in 2006 was recorded off the books and not recoverable in rates, presumably, because all plant was considered contributed capital. Staff recommended the same treatment for the current transaction, i.e., the purchase price paid for the system by Mr. Carrier should not be recorded as rate base or earn a return and as such should not be recoverable in rates from customers.

Based on the foregoing, Staff recommended an adjusted annual revenue requirement for Algoma of \$10,002.22. This represents an increase of approximately \$4,000 over the 2007 revenue of \$6,002.77.

C. Rate Design

In its initial July 2007 Application, the Company proposed to increase the flat rates to \$30.00 per month for residential customers and \$40.00 per month for commercial customers. In March 2008, the Company amended its Application and proposed to increase the flat rates to \$36.00 per month for residential customers and \$54.00 per month for commercial customers. The Company justified the change based on the need for major repairs during the summer of 2008. In its proposed rate design, residential customers receive a greater percentage of increase than the commercial customers. The percent rate increase for residential customers is 104.7% and 91.8% for commercial customers.

In its comments, Staff recommended a rate design based on a more uniform percent rate increase to both customer classes. Using its proposed revenue requirement of \$10,002.22, Staff proposed a new monthly flat rate of \$27.00 for residential customers and \$44.50 for commercial customers – a 53.5% and 58.1% increase, respectively.

D. Other Operational and Maintenance Issues

During its visit to the Company's facility in April 2008, Staff noted that not only was the well meter logbook missing more than six months of records, but also the well house meter was no longer functioning. In addition, when questioned about emergency shut-off capabilities, the Company indicated that drawings for the system were inadequate to properly identify individual shut-off valves from the distribution main to the customer service line. Staff recommended replacement of the well house meter and monthly monitoring of water use. Staff

also recommended that the Company work with Staff in developing a plan and cost estimate to properly identify and mark approximate locations of individual shut-off valves before problems occur.

Upon review of the Company's water rights, Staff learned that the owner of record of the Company's water rights is Goldan, Inc. This was confirmed by the Idaho Department of Water Resources (IDWR). No application for change of ownership has been made to date. IDWR indicated that an appropriate form must be filed with IDWR for change of water rights ownership if there is a change of ownership of the public water system. Staff recommended that Algoma Water file the required notice for water rights ownership as soon as possible.

E. Customer Relations and Tariffs

Staff asserted that the General Rules and Regulations section of the Company's tariff does not comply with current Commission requirements. In particular, Staff recommended a revision of the Company's past-due and disconnection notices. Staff has offered to assist the Company in bringing its tariff into compliance and revising its past-due and disconnection notices. Staff further recommended that the Commission authorize a late payment charge of one percent per month on any balance owing at the time of the next monthly billing cycle as a means of encouraging prompt payment.

COMMISSION FINDINGS

Algoma Water Company is a water corporation subject to our regulatory jurisdiction pursuant to *Idaho Code* §§ 61-124, 61-125, and 61-129. Having fully reviewed the record in this proceeding, the Commission finds that the Application to sell Algoma Water Company to Mr. Robert J. Carrier (and transfer its Certificate of Public Convenience and Necessity No. 396) should be granted. We find that the Company and Mr. Carrier have demonstrated that Mr. Carrier has the financial ability and a satisfactory business plan to continue running the utility. The Commission recognizes Sagle Valley's desire to purchase the Algoma system and that Algoma is located within the water District's boundaries. However, the Commission does not possess the authority to compel the owner of Algoma Water Company to sell to Sagle Valley.

Turning to the proposed rate increase, we find it reasonable to use a 2007 test year. Based upon our review of the audit, we further find the Company's existing rates are unreasonable and do not afford sufficient revenue to the Company. The Company offered no rebuttal or objection to the Staff's audit. We find it just and reasonable for the Company to

increase its annual revenues by approximately \$4,000 for a total annual revenue requirement of \$10,002.22. Algoma is authorized to increase its flat rate tariff to \$27.00 per month for residential customers and \$44.50 per month for commercial customers. The purchase price paid by Mr. Carrier shall not be recorded as rate base or earn a return and, as such, shall not be recoverable in rates from customers.

We also find that the Company should implement several corrective measures. In particular, Algoma shall: (1) repair or replace the broken well house meter and begin monitoring/recording of monthly water use; (2) update its drawings of the water system to properly identify individual shut-off valves; (3) complete the necessary paperwork with the Idaho Department of Water Resources to transfer the water rights ownership to Algoma; and (4) revise its tariffs to comply with current Commission requirements. We direct the Company to remedy these issues and notify the Commission when these deficiencies have been corrected.

We conclude that the new rates and charges set out in this Order are fair, just, and reasonable.

ORDER

IT IS HEREBY ORDERED that Algoma Water Company's Application to sell the Company (including the transfer of its Certificate of Public Convenience and Necessity No. 396) is granted as conditioned in this Order.

IT IS FURTHER ORDERED that the rates for monthly flat rate service shall be \$27.00 for residential customers and \$44.50 for commercial customers. The Company shall submit tariffs in compliance with the rates identified in this Order. The rates and charges authorized by this Order shall become effective for service upon approval of the Company's revised tariffs. Algoma shall file its conforming tariffs no later than 14 days from the service of this Order.

IT IS FURTHER ORDERED that the Company shall repair or replace the well house meter and begin monthly monitoring water usage. Algoma shall also develop a plan and cost estimate to properly identify and mark approximate locations of individual shut-off valves within 90 days of the service date this Order.

IT IS FURTHER ORDERED that the Company shall file with the Idaho Department of Water Resources a change in water rights ownership, adjust the Company's tariffs to comply with current Commission requirements, revise the Company's past-due and disconnection

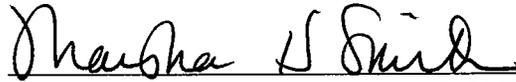
notices, and implement a late payment charge of one percent per month on any balance due and owing. The Staff shall assist the Company with making changes to the tariffs. The Company shall complete these tasks within 14 days of the service date of this Order.

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 11th day of June 2008.



MACK A. REDFORD, PRESIDENT

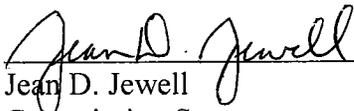


MARSHA H. SMITH, COMMISSIONER



JIM D. KEMPTON, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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