

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF BITTERROOT WATER COMPANY FOR) CASE NO. BIT-W-05-1
AUTHORITY TO INCREASE ITS RATES)
) ORDER NO. 29966
)**

On June 15, 2005, Bitterroot Water Company, Inc. (Bitterroot; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting a change in its tariff rates. Bitterroot is a regulated water utility providing water service under Certificate of Public Convenience and Necessity No. 319 to approximately 117 customers in Kootenai County, Idaho. The Company's water rates were last adjusted in 1999. Reference Order No. 28121. In its Application, Bitterroot requested that its base rate for metered customers be increased from \$20 per month to \$45 per month. No change was proposed by the Company in the \$.75 commodity charge per 1,000 gallons of water consumed in excess of 15,000 gallons per month. According to Bitterroot's Application, the proposed increase in rates is to help offset the increasing costs associated with the operation, maintenance and capital improvements to the water system. Bitterroot contends that the Company's water system has been systematically reviewed and upgraded to maintain compliance with increasingly tougher government standards for water quality. Rising power and labor costs play the biggest role in recent operating expense increases. Bitterroot's Application is accompanied by financial schedules and engineering information.

Bitterroot's Annual Report filed with the Commission for the year ending December 31, 2004 reflects annual revenue of \$35,619 and annual operating and regulatory expenses of \$39,233, a net loss of \$3,614. The Company in its Application proposes a 2004 test year with known and measurable adjustments of \$35,593 occurring in 2005 to determine its proposed revenue requirement of \$71,212. The requested change in rates would represent an increase in total water revenues of approximately 99%. For reasons detailed below, this Order authorizes Bitterroot to increase its rates and charges for water service by \$18,089 annually, or 50.78% over current revenues, to a total revenue requirement of \$53,708. The tariff rate design we approve increases the fixed monthly charge from \$20 to \$21, increases the commodity charge for monthly consumption exceeding 15,000 gallons from \$.75 to \$1.73 and authorizes two

temporary surcharges, \$1.24 per month for back flow prevention (four years) and \$2.67 per month for replacement of defective isolation valves (eight years).

On June 30, 2005, the Commission issued a Notice of Application in Case No. BIT-W-05-1, deferring further scheduling until Staff completed its investigation and audit. On October 20, 2005, the Commission issued a Notice of Modified Procedure in Case No. BIT-W-05-1 making a preliminary finding that the public interest in the Company's Application might not require a technical hearing to consider the issues presented.

On November 2, 2005, Commission Staff held a public workshop for Bitterroot customers at the Athol Community Center in Athol, Idaho, a meeting attended by approximately 50 customers. At the meeting customers were provided the opportunity to ask questions of Staff and representatives of the Company. Following the workshop customers were provided an opportunity to file written comments. The deadline for filing written comments was November 16, 2005. Comments and recommendations were filed by Commission Staff and 30 of the Company's customers. Reply comments were filed by Bitterroot on December 1, 2005.

Comments, Recommendations and Commission Findings

As reflected in its comments, Commission Staff performed a detailed audit of the Company's Application and financial records, interviews with Company personnel and a physical inspection of the Company's plant and distribution system. Staff verified the accounting figures reported by the Company's books and records and reviewed the Company's internal controls and billing procedures. The reservoir and pumping facilities were inspected by Staff and the Company's maintenance practices and improvements were reviewed and discussed.

A. The Bitterroot Water System

Staff reports the Company water system to be in acceptable condition with the exception of peak season heavy demand on the well and booster pumps and some underground valves that were installed incorrectly and are subject to corrosion and leakage. The concrete 100,000 gallon reservoir was clean and the pump and equipment house built on top of the reservoir was clean and in good condition. The single 120 gpm well pump is reportedly sufficient to meet the needs of the company in all but the highest use months. Interconnection with the neighboring Rickel Water system provides an alternative source of supply in the event of capacity shortfall or pump failure (125 gpm well pump). There are two booster pumps, one rated 30 hp and the second at 15 hp. Plans are underway to add a third booster pump (also 15

hp). In normal instances only one booster pump is required to meet system demand; however, during peak hours the 30 hp booster pump cycles on and off. The chlorination system was functioning and the owner reports that it is maintained monthly and checked frequently.

As reflected in Staff comments, as of December 31, 2004, Bitterroot had 117 customers connected to the system with a maximum monthly consumption of 5,979,502 gallons (July) and an annual consumption of 23,228,000 for the year 2004. The Annual Report filed by Bitterroot states that 19,550,709 gallons were pumped from the Company well, 4,239,770 gallons were purchased from Rickel Water and 2,219,000 gallons were sold to Rickel water in 2004, for a net purchase of 2,020,770. Rickel Water Company is a public utility (Certificate No. 324) operated under common ownership with Bitterroot and there is a charge of \$3.00 per every 10,000 gallons sold between the two companies. During 2004, a net of approximately \$600 worth of water was exchanged between the two companies. Staff recognizes the need to sell water back and forth between the two companies to alleviate constraints on the system during peak summer months; however, neither company has a tariff on file with the Commission regarding such sales. Staff recommends the Commission direct Bitterroot to file an appropriate tariff for the commercial sale and purchase for resale of water with justification for the rate. The Company in reply comments agrees to file tariffs for the commercial sale of water to Rickel Water and commits to record water purchase/sale transactions on a more frequent basis. The Commission acknowledges Staff's and the Company's comments regarding water purchased from and sold to Rickel Water and agrees that Bitterroot should request a tariff for authorization of such transactions and maintain detailed transaction reports if it expects to justify and recover related expenses.

B. Revenue Requirement and Operating Expenses

Bitterroot in its Application requests an annual revenue requirement of \$71,212. The Company seeks recovery of \$39,233 of test year 2004 operating and regulatory expenses plus \$31,979 of pro forma expenses (Adjustments A-P). Staff reviewed the 2004 expenses for prudence and the pro forma expenses for necessity and proposed additional adjustments to test year expenses (Adjustments Q-S). See Attachment A to this Order.

Staff, in its filed comments, proposed total adjustments of (\$20,996) and a revenue requirement of \$50,968, an increase 43.09% over current revenues. The Company by way of reply and rebuttal proposes a revenue requirement of \$53,708 (as adjusted). Included in the

Company's rebuttal adjustments is an increase of \$1,176 in operation labor (Adjustment G) to account for daily chlorine testing and additional labor needed to institute the back flow prevention valve (Adjustment K) and the isolation valve (Adjustment S) implementation. Also included by the Company is a \$1,620 increase in accounting services labor (Adjustment M). The Commission is informed that Staff acquiesces to the Company's rebuttal adjustments and supports a revenue requirement of \$53,708, an increase of 50.78% over current revenues. See Attachment A.

The Commission has reviewed the final proposed expense adjustments and finds them to be uncontested by Company and Staff. We find the adjustments to be reasonable and we find that the post-test year adjustments satisfy the Commission's known and measurable standard. We approve an annual revenue requirement for Bitterroot of \$53,708.

The Commission finds that the Company has also been correctly apprised by Staff in the instance of Adjustments F and H as to the appropriate recordkeeping procedures for capital investment and regulatory requirements and options for related capital expense recovery. (Reference Adjustment F—Well Pump Replacement; Adjustment H—Booster Pump Replacement and Maintenance.)

As noted in Staff comments, because Bitterroot has previously expensed all capital investments, the Company did not propose a rate base in this proceeding. Based on Staff comments, we find that the record provides a basis for identifying a rate base and authorizing a return on equity. The Company in its Application requests \$2,971 amortized over four years for a new 15 horsepower booster pump. Staff in Adjustment H contends that the pump is a capital investment that should be booked to plant-in-service and depreciated over its useful life (seven years). The corresponding depreciation expense when using a seven-year estimated useful life, as computed by Staff, is \$425. Staff removes the \$2,622 adjustment proposed by the Company for booster pump replacement and maintenance and creates a depreciation expense of \$425 for recovery. Staff recommends an 11% return on equity in this proceeding applied to plant-in-service (rate base) of \$2,971 (booster pump), less zero (< 0 >) accumulated depreciation results in a return on capital and increases the Company revenue requirement by \$327. The Commission finds the Staff proposed \$2,971 rate base for Bitterroot and the related accounting entries to be reasonable and the recommended 11% return on equity for Bitterroot to be fair, just and reasonable.

C. Tariff Structure and Rates

The existing rate tariff structure for Bitterroot consists of a \$20.00 per month minimum charge and a commodity rate of \$0.75 per thousand gallons for usage over 15,000 gallons in a month. With this structure Staff calculates that approximately 80 percent of 2004 revenue was derived from the minimum monthly charge and 20 percent from sale of commodity (approximately \$28,300 and \$7,300, respectively). The Company in its Application requested an increase in the minimum monthly charge to \$45.00 with no change to either the amount of water included in the minimum or in the commodity rate.

Given the significant peak demand placed on the system's well and booster pump capacity in 2004 and a perceived need for further conservation, Staff believes it is reasonable to recommend a tariff that recovers a larger percentage of the Company's revenue requirement from the commodity rate. Staff in its comments proposed to increase the percent of revenue collected through the commodity charge from 20 percent to 35 percent. To recover its recommended revenue requirement of \$50,641, Staff proposed a tariff structure of \$24.00 per month plus \$1.65 for each 1,000 gallons of usage over 15,000 gallons.

Bitterroot Water in reply comments proposed reducing Staff's recommended fixed monthly charge of \$24 to \$21 and proposes recovery of estimated costs for back flow prevention and replacement of defective isolation valves through two separate surcharges, a four year \$1.24 per month surcharge for back flow prevention (Staff Adjustment K) and an eight year \$2.67 per month surcharge for replacement of defective isolation valves (Staff Adjustment S). The surcharges would be placed in dedicated reserve accounts for tracking purposes. The Company also proposed increasing the commodity tariff from Staff proposed \$1.65 to a later adjusted \$1.73 per 1,000 gallons for monthly usage over 15,000 gallons. The Commission is informed that Staff concurs in the Company's proposed rate design.

As reflected in the preceding section to this Order, the Commission approves a revenue requirement for Bitterroot Water of \$53,708. The Commission finds the consensus tariff structure agreed to by Company and Staff to be reasonable. The rate design we approve increases the fixed monthly charge from \$20 to \$21, increases the commodity charge for monthly consumption exceeding 15,000 gallons from \$.75 to \$1.73 and authorizes two temporary surcharges, \$1.24 per month for back flow prevention (four years) and \$2.67 per month for replacement of defective isolation valves (eight years). See Attachment B. Under the

tariff structure an estimated 65% of revenue will be recovered from fixed charges and 35% from commodity charges.

The Company proposes a four-year plan to install one-inch angle check valves for back flow prevention for its water customers. While Idaho Drinking Water Standards do not require back flow prevention at the residential connection, we recognize, as Staff notes, that the practice is required in other northwestern states. We find the Company's proposal to install back flow prevention devices to be a practice adopted by other Idaho water companies and a prudent practice for health reasons. Eighty-seven back flow prevention devices are required at a Company estimated individual unit (installed and tested) cost of approximately \$80. Bitterroot recommends recovery by way of a monthly surcharge to assure guaranteed cost recovery. We find the estimated cost and implementation plan to be reasonable and authorize recovery of same through a four-year customer surcharge of \$1.24 per month.

The second surcharge that we authorize is for isolation valves. As reflected in Staff's comments, when the mains were originally installed on the Bitterroot system, the service stubs were installed for each lot with an isolation valve buried at the termination point. These original individual residential isolation valves were bronze gate valves, which are not designed for direct burial. The valves were installed prior to the Rickel's acquisition of the Bitterroot system. In the past two years it is reported that these valves have begun to fail, resulting in leaks and loss of pressure. The failures are only discovered when the leaks are a sufficient size to either be heard or to create a surface water problem. The Company believes that 60 of these valves remain in service and proposes a proactive maintenance program aimed at replacing at least eight valves per year for the next several years (more than eight if there are additional failures). The replacement valves will be of a fully encapsulated body and stem design intended for direct burial. The estimated cost for replacement including backhoe time, labor and materials is \$500 per valve. Staff believes the proactive maintenance program to be prudent and recovery to be appropriate. Bitterroot recommends recovery by way of a monthly surcharge to assure guaranteed cost recovery. The Commission agrees, finds the proposed replacement plan to be reasonable and authorizes an eight-year customer surcharge of \$2.67 per month.

Customer Comments

Bitterroot customers filing comments express varied degrees of concern and opposition regarding the size of the rate increase requested in the Application. Issues of

affordability are raised by many on low or fixed incomes. Service issues noted are occasional drops in water pressure, the sometimes noticeable smell and taste of chlorine, and the Company's failure to notify customers when it was working on the system. One customer identifies a need for backup generation for pumping during times of power outages; another a desire for lower rates for irrigation water; and another questions the Company's stated need to purchase a backhoe. A number of customers request a more equitable distribution of water costs assessing greater cost responsibility to those who use more than the average water user, such as one customer in July 2004 who reportedly used 213,500 gallons. The average customer water usage for that month was 53,400 gallons. Customers also resent having to pay for past neglect and for the replacement of meters that they believe should have a longer service life.

The Commission finds the Company's practice of treating water with chlorine to comport with DEQ requirements and to be prudent. We encourage the Company to notify affected customers when performing system maintenance and modifications. We also find that the tariff minimum and commodity charge structure approved is designed to promote greater conservation and equitable distribution of costs.

Regarding meter replacement, the Commission notes that one of the expense adjustments proposed by Staff (Adjustment I) and agreed to by the Company is elimination of a Company proposed increase of \$3,050 for meter maintenance. Staff questioned the Company's meter replacement proposal believing the installed meters to have a longer life than the one million gallon total flow range represented to the Company by a meter vendor. Staff recommended that the Company as part of its routine maintenance replace some of the older measuring chamber cartridges and test the accuracy of the removed cartridges. Staff believes the test year figure of \$1,537 for meter maintenance allows the Company sufficient revenue for meter maintenance. If meters need to be replaced, Staff contends, the Company should capitalize the cost of the meters and seek recovery in a later case.

Regarding the Company's proposal to purchase a backhoe (\$40,000 amortized over 20 years), the Commission notes that Staff (Adjustment L) rejected the Company's proposal for three reasons: (1) the cost of the backhoe should be allocated among Rickel Water Company, Bitterroot Water Company and personal use; (2) a substantive cost benefit analysis comparing rental and purchase options was not performed and submitted by the Company; and (3) because

the Company has not purchased the backhoe, the cost is not a known and measurable post-test year expenditure. The Company accepted Staff's proposed adjustment.

Commission Findings

The Commission has reviewed and considered the filings of record in Case No. BIT-W-05-1 including Staff's filed comments and recommendations, the Company's related reply and the filed comments of customers. The Commission continues to find that the issues presented in this case are suitable for processing under Modified Procedure, i.e., by written submission rather than by hearing. Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204.

Idaho Code §§ 61-301 and 61-307 require that the Commission establish just and reasonable rates for each utility. The Commission finds it fair, just and reasonable based on Staff accounting, engineering and related financial data to approve an annual revenue requirement for Bitterroot Water of \$53,708 (an increase of \$18,089 or 50.78%), an amount that includes total annual surcharge revenue of \$5,489.64 comprised of a four-year \$1.24 per month surcharge for backflow prevention (\$1,740.96) and an eight-year \$2.67 per month surcharge for replacement of defective isolation valves (\$3,748.68). The fixed monthly minimum charge that we approve is an increase from \$20 to \$21. We also approve an increase in the commodity tariff rate per 1,000 gallons for usage over 15,000 gallons per month from \$.75 to \$1.73. We find that the rates and charges designed to recover the revenue requirement established are fair, just and reasonable and nondiscriminatory. The Company is directed to file tariff sheets reflecting our authorized rates and charges.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction and authority over Bitterroot Water Company, Inc., a water utility, and the issues raised in this case, pursuant to Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

ORDER

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED and the Commission in Case No. BIT-W-05-1 approves an \$18,089 or 50.78% increase in authorized annual revenues for Bitterroot Water Company, Inc., for a total authorized annual revenue requirement of \$53,708. Our revenue requirement calculation includes a rate base of \$2,971 and an authorized 11% return on equity.

IT IS FURTHER ORDERED and the Commission does hereby establish rates and charges for metered water service as set out above. The Company is required to file tariff sheets consistent with this Order. The rates and charges we approve will be effective February 1, 2006.

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 31st day of January 2006.



PAUL KJELLANDER, PRESIDENT

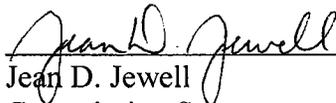


MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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BITTERROOT WATER COMPANY
BIT-W-05-01

	Company Reported 2004	Company Pro Forma Adjustments	Company Request Per Application	Staff Adjustments		Staff Revenue Requirement	Company Rebuttal
REVENUES							
Metered Sales	35,619	35,593	71,212			50,968	53,959
EXPENSES							
Operation Expenses							
Operation Labor	6,325	1,176	7,501	0	A	7,501	8,677
Purchased Water	0	200	200	(200)	B	0	0
Purchased Power	7,323	1,098	8,421	(141)	C	8,280	8,280
Supplies & Expenses	0	240	240	510	D	750	750
Chemicals	66	1,554	1,620	0	E	1,620	1,620
Other	320	0	320	0		320	320
Total Operation Expense	14,034	4,268	18,302			18,471	19,647
Maintenance Expenses							
Maintenance of Pumping Plant	0	2,231	2,231	(2,231)	F	0	0
Maintenance of Water Treatment Plant	0	9,700	9,700	(7,200)	G	2,500	2,500
Maintenance of Distribution Reservoirs & Standpip	0	2,622	2,622	(2,622)	H	0	0
Maintenance of Meters	1,537	3,050	4,587	(3,050)	I	1,537	1,537
Maintenance of Other Plant	35	346	381	(292)	J	89	89
Repairs of Water Plant	916	2,000	2,916	0	K	2,916	2,916
Other	181	2,000	2,181	(2,000)	L	181	181
Total Maintenance Expense	2,669	21,949	24,618			7,223	7,223
Customer Accounts Expense							
Meter Reading Labor	1,800	0	1,800	0	A	1,800	1,800
Accounting and Collecting Labor	2,628	3,372	6,000	(2,450)	M	3,550	5,170
Uncollectible Accounts	123	0	123	0		123	123
Other	150	0	150	0		150	150
Total Customer Accounts Expense	4,701	3,372	8,073			5,623	7,243
Administrative & General Expenses							
Administrative & General Salaries	6,325	1,176	7,501	(1,176)	A	6,325	6,325
Office Supplies & Other Expenses	994		994	0		994	994
Outside Services Employed	0	500	500	(500)	N	0	0
Property Insurance	6,803	74	6,877	(2,438)	O	4,439	4,634
Regulatory Commission Expenses	598		598	0		598	598
Miscellaneous General Expenses	1,316	640.00	1,956	(640)	P	1,316	1,316
Transportation Expenses	911		911	0		911	911
Other	0		0	(35)	Q	(35)	(35)
Total Administrative & General Expenses	16,947	2,390	19,337			14,548	14,743
Property Taxes	227	0	227	0		227	227
Income Taxes	655	0	655	(531)	R	124	124
Add Maintenance Reserve				4,000	S	4,000	3,749
Add Depreciation Expense				425	H	425	425
Total Operating Expenses	39,233	31,979	71,212	(20,996)		50,641	53,381
Add Return on Capital						327	327
Total Revenue Requirement						50,968	53,708 ****

The Company's rebuttal requests a revenue requirement of \$53,959 as illustrated on Page 6 of their response to Staff's comments, which is \$251 less than reflected on this spreadsheet. The \$251 difference is derived from the Company's proposal of a surcharge for "Adjustment S". Staff proposed a \$4,000 annual maintenance reserve, and the Company requested a surcharge of \$2.67 per month or \$3,749 (\$2.67 x 117 customers x 12 months).

BitterRoot Tariff Reconciliation

REVENUE REQUIREMENTS, DETERMINATION OF TARIFF STRUCTURE	TEST YEAR DATA		TARIFF STRUCTURE PROPOSED BY COMMISSION STAFF		PROPOSED BY COMPANY (REBUTTAL)		Authorized	
	USAGE DATA	TARIFF & REVENUE DATA	USAGE DATA	TARIFF & REVENUE DATA	USAGE DATA	TARIFF & REVENUE DATA	USAGE DATA	TARIFF & REVENUE DATA
Total Revenue		\$35,619		\$51,647.81		\$53,939.77		\$53,795.85
Revenue Requirement Determined by Staff				\$50,968.00				\$53,708.00
Total Surcharge Revenue								\$5,489.64
Total Revenue Requirement less Surcharge								\$48,218.36
Revenue from Minimum Monthly Charge		\$27,154		\$33,696.00		\$29,484.00		\$29,484.00
Amount include in Minimum Charge, gallons		15,000		15,000		15,000		15,000
Revenue from usage over 15,000 gal/cust/mo		\$8,465		\$17,951.81		\$18,713.41		\$18,822.21
Percent Non-Surcharge Revenue from Minimum Monthly Charges		76.23%		65.24%		54.66%		61.15%
Percent Non Surcharge Revenue from Variable Rate		23.77%		34.76%		45.34%		38.85%
Total Gallons Billed over 15,000gal/mo/cust in 2004	10,879,888		10,879,888		10,879,888		10,879,888	
Fixed Minimum Monthly Charge		\$20.00		\$24.00		\$21.00		\$21.00
No of Customers	117		117		117		117	
Commodity Tariff \$ / 1,000 gallons, for amount over 15,000		\$0.75		\$1.65		\$1.72		\$1.73
Surcharge #1 - Four Years for Backflow Prevention, \$/month					See Footnote 1 ====>	\$1.42		\$1.24
Surcharge #1 Revenue						\$1,993.68		\$1,740.96
Surcharge #2 - Eight Years for Replacement of defective Isolation Valves, \$/month						\$2.67		\$2.67
Surcharge #2 Revenue						\$3,748.68		\$3,748.68

1 - The recovery of \$6,963.84 included in the originally proposed tariff is correct. In a telephone conversation, The company indicated that 87 backflow prevention devices are required. This results in a lower revenue requirement which \$1.24 per month for 4 years will recover.