DECISION MEMORANDUM

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DAVID SCOTT

WORKING FILE

FROM:SCOTT WOODBURY

DATE:August 12, 1997

RE:FLS-W-97-1

FALLS WATER COMPANY

RATE CASE

On May 19, 1997, Falls Water Company, Inc. (Falls Water; Company), an Idaho not-for-profit corporation and holder of Certificate of Public Convenience and Necessity No. 236, applied to the Idaho Public Utilities Commission for authoriza­tion to increase its rates and charges for water service.  Falls Water provides water service in the Idaho Falls area to approximately 976 metered residential customers, 7 metered commercial customers, and 553 flat rate residential customers.

Falls Water requests authorization of a general 34.9% increase in water rates as follows:

◆Increase flat rate residential customer monthly charges from $8.80 plus $0.35 for DEQ fee to $11.65 plus $0.35 for DEQ fee for a total monthly rate of $12.00.

◆Increase residential and commercial metered rates from $8.80 plus $0.35 (DEQ) for the first 40,000 gallons and $0.17 per thousand gallons in excess of 40,000 gallons to $11.65 plus $0.35 (DEQ) for the first 40,000 gallons and $0.30 per thousand gallons in excess of 40,000.

Falls Water also requests authorization of the following charges:

◆Increase hook-up fees from $300 to $500.

◆Institute a service charge for delinquent accounts in the amount of 1.5% per month with a $2 minimum.

Except for these changes, it is the Company’s intention that the tariffs on file with the Commission remain the same.

Falls Water in its Application states as follows:

The need for filing this Application has come about due to the fact that the Applicant Company is currently operating at a loss.  The requested increase in charges will result in revenue sufficient to pay for the current operating expenses and provide a small return which will be held by the corporation for system improvements and replacement.  As stated above, Falls Water Com­pany, Inc. is an Idaho not-for-profit corporation and is therefore not author­ized to make any distributions of profits to owners, but can utilize profits for expansion and improvement.

The Applicant has not made application for a rate increase since October 1989.  At that time an increase of 11.4% or $0.90 per customer per month was granted.  The management of Falls Water has tried to be frugal and conservative in order to maintain the rates as low as possible.  The age of some of the system, however, is requiring more frequent repairs and has caused this inevitable Application.

Falls Water requests that the changes in rates take effect as soon as possible but at the beginning of a calendar month to avoid partial monthly increases.

Included with the Company’s Application are the following attachments, schedules and proposed tariffs:

1.  Copy of customer notification of filing

2.  Three year balance sheet

3.  Three year detail of operating expenses

4.  Three year detail of revenues and income statement

5.  Calculation of rate base

6.  Statement of income at present and proposed rates

7.  Explanation of rate calculations

8.  Proposed tariff schedules and legislative format

Notices of Application and Modified Procedure in Case No. FLS-W-97-1 were issued on June 2, 1997.  The deadline for filing written comments was July 25, 1997.  The Commission Staff was the only party to file comments (attached).  Reply comments expressing general agreement were filed by the Company on July 31, 1997.

Staff comments and recommendations can be summarized as follows:

Revenue Requirement

Staff reviewed the Company’s Application and conducted field audit work of the Company’s financial records.  Based on its analysis, Staff is only able to support an increase in the Company’s revenue of $31,133 (17.28%) to $38,994 (21.64%), as compared to the Company’s request for $62,922 (39.4%).

Staff Exhibit No. 101 Schedule A enumerates the following exceptions to the way the Company has accounted for expenditures.

▸Identified $10,695 of reported expenses not properly chargeable to water company operations.

▸Identified $17,127.76 of reported expense that should have been capitalized and recognized in the Company’s rate base.

▸Identified $8,988 of reported plant-in-service accounts that should have been included in the Company’s plant held for future use account.

Adjustments recognizing these exceptions requires adjustment to the Company reported depreciation expense and accumulated depreciation accounts.

Staff Exhibit No. 101 Schedule B adjusts the Company’s results of operation for the 1996 test year.  After making adjustments for items detailed in Schedule A, the Company reported loss of $43,192 for test year 1996 is reduced to $15,411.

Staff Exhibit No. 101 Schedule C develops the Staff’s alternative revenue increase amounts of $31,133 to $38,994.  These revenue increases represent increases of 17.28% to 21.64% of the revenues billed to customers in the 1996 test year and provide a return on rate base of 8% to 12%.  Staff notes that the Commission has for several years been using 12% as a reasonable return on equity for small water companies in recognition of the increased risk associated with a small customer base.  Falls Water is a not-for-profit corporation (although probably not tax exempt).  The Company in its Application requested a 9.82% return to fund or provide a reserve to meet future improvements, repairs and replacements.  A greater return will enable the Company to install meters and build its reserve faster.  Staff notes that even with 12%, the revenue per customer required would still be among the lowest rates of any regulated water utility.

Monthly Usage Allowance

Staff recommends that the monthly usage allowance for rate design be reduced from 40,000 gallons to 20,000 gallons.  The Company’s annual revenue attributable to commodity sales for usage above 40,000 gallons per month is approximately $13,300, less than 8% of the Company’s  total annual revenue and barely exceeding the Company’s annual metering costs ($10,400), which include meter reading labor costs, meter depreciation costs, and return on investment grossed up for taxes.  A lower monthly allowance, Staff contends, would allocate costs more fairly between customers and generate more revenue through commodity rate sales.

Rate Design

Staff provides various combinations of base and commodity rates that would meet the Company’s revenue requirement with a 12% return.  Staff proposes a rate design different from the Company’s which would collect 92% of annual revenues from base rate charges and only 8% from commodity charges.  If the Commission chooses to lower the monthly allowance to 20,000, Staff recommends a base rate of $10 per month and a commodity rate of $.30 per thousand gallons.  These rates would represent an increase of 9% in the base rate, and an increase of 76% in the commodity rate.  The rate design recovers approximately 15% of the revenue requirement through commodity sales and 85% through base rates.

If the Commission chooses not to lower the monthly usage allowance, then Staff recommends the base rate be set at $10 per month and the commodity rate be set at $.52 per thousand gallons.

If the Commission chooses to abandon metering and charge all customers a flat monthly rate, then a rate of $11.78 per month would achieve the Company’s revenue requirement, as recommended by Staff.

Tariff Revisions

Staff recommends that the Company’s tariffs be amended to reflect actual billing practice.

Staff notes that four unmetered customers are billed monthly in multiples of the base rate.—a 40 unit apartment building is billed at 40 times the base rate; a mobile home park is billed at the base rate times the number of spaces filled during the month; two churches are billed based on the number of congregations that meet at each church.  Staff recommends that the apartment building and mobile home park be treated consistently, actual occupancy or total number of units, and that the tariffs be amended to state this treatment.

Staff recommends that the two churches be metered and billed accordingly.

Hook-Up Fees

Staff concurs with the Company’s proposal to increase hook-up fees from $300 to $500.

Meter Reading

Noting a fairly high rate of meter errors and corrections (6-8%), Staff recommends that the Company be directed to improve the accuracy of its metering, be it mechanical or human error.

Delinquent Payment Charges

The Company proposed a service charge for delinquent accounts in the amount of 1½% per month on the unpaid balance, with a $2 minimum fee.  Falls Water has individual shut off valves on each metered and unmetered service connection.  Should the Commission find it reasonable to allow the Company to assess a late payment charge, Staff recommends that a rate of 1% per month (12% annual) be adopted.  Noting that 54% of the Company’s delinquent accounts are more than 90 days past due, Staff recommends that the Company apply the Utility Consumer Rules and Regulations.  i.e. Disconnection UCRR No. 302; Payment Arrangement UCRR No. 313.

Falls Water in its reply comments concurs with the following recommendations or alternatives proposed by Staff:

Revenue Requirement$38,994 (21.64%)

Monthly Usage Allowance  20,000 gallons

Rate Design$10 per month plus 30¢ per 1000      gallons greater than 20,000 gpm

Tariff Revisions—the Company proposes the following

1.Separating the commercial rates into seasonally read accounts and accounts with meters read 12 months of the year.  Commercial users whose beginning and end of meter reading season usage shows they would likely use less than the 20,000 gallons per month included in the base would fall under the seasonal commercial rate while other commercial users would have meters read year-round.  This can now be more easily done since the advent of reliable and economical remote meter heads which are not buried under snow in the winter.  (Staff agrees)

2.Creating a multi-unit residential rate for apartment buildings and mobile home parks at the rate of the base charge multiplied by the number of residential units whether occupied or vacant.  (Staff agrees)

3.Create institutional or “non-commercial non-residential” rates for churches, schools, and other similar users.  The rates would be identical to the two commercial rates proposed above.  (Staff agrees, provided these customers are metered)

Hook-up Fees—increase to $500

Meter Reading—Upon approval of rates, the Company commits to institute a plan of action for improving the accuracy of meter readings, performing rereads as needed, repairing and/or replacing defective meters and obtaining and requiring access to all existing meters.

Delinquent Payment Charges—Falls Water withdraws its request for delinquent payment charges and will move forward with a more aggressive collection plan based upon the Commission’s UCRRs.

The Company requests a September 1, 1997, effective date.

Commission Decision

Revenue requirement

Monthly usage allowance

Rate design

Tariff revisions

Hook-up fees

Meter reading

Delinquent payment charges

Scott Woodbury

cm/M:FLS-W-97.1.sw2