(text box: 1)BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE JOINT APPLICA­TION OF FALLS WATER COMPANY, INC.  AND SARGENT WELL COMPANY FOR TRANSFER OF SARGENT WELL COMPANY’S CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO FALLS WATER COMPANY, INC. | )))))))) | CASE NO.FLS-W-98-1 SAR-W-98-1ORDER NO. 27616 |

On April 3, 1998, Falls Water Company, Inc. (Falls Water) and Lynn Sargent dba Sargent Well Company (Sargent) filed a joint Application with the Idaho Public Utilities Commission (Commission) requesting a transfer of Certificate No. 318 from Sargent to Falls Water.

The applicants represent that Falls Water has agreed to purchase and Sargent has agreed to sell the Sargent water system for the sum of $2,500.  The purchase price includes all rights, interest and real and personal property owned by Sargent for the production and distribution of potable water to the residents of the Sargent certificated area of service, an area in Bonneville County, Idaho, more particularly described as the Grayson Subdivision in the northeast one quarter, Section 10, Township 3 North, Range 38 East, Boise Meridian.  The purchase will be finalized within 30 days of the approval of this application.

Sargent is a small water system that serves approximately 13 customers.  The commodity charge for water service is a flat $25 per month.  The system consists of a single well, a 10-horsepower pump and distribution facilities.  Falls Water anticipates no change in the physical operation of the Sargent system in the near future and proposes that the current rates and tariffs of Sargent continue.

The applicants represent that the purchase of Sargent will bring to the Sargent customers the advantages of the back-up of a larger water purveyor.  Falls Water currently provides water service to approximately 1,600 residential/commercial customers in an area south of Sargent.  If the sale is approved, Sargent customers will be afforded around the clock engineering service and will benefit by having a system run by operators certified by the Idaho  Water and Waste Water Operators Certification Board.

The applicants request that this matter be processed pursuant to the Commission’s Rules of Modified Procedure, i.e., by written submission rather than by hearing.  Reference IDAPA 31.01.01.201-204.  By agreement, Falls Water on April 1, 1998, began to operate the Sargent water system.

Commission Notice of Application and Modified Procedure in Case Nos. FLS-W-98-1/SAR-W-98-1 issued on April 29, 1998.  The deadline for filing written comments was June 12, 1998.  Commission Staff was the only party to file comments.  Comments of Staff can be summarized as follows:

Staff supports the acquisition of the Sargent’s system by Falls Water.  Staff notes that the existing flat rate of $25 per month for customers of the Sargent system was established in 1992 based upon a petition signed by the property owners agreeing to the reasonableness of that rate.  The rates have never been changed nor has a formal investigation of the rates been performed.

For tax purposes, Staff notes that the entire $5,000 purchase price of the system has been completely depreciated as of the end of 1996.  As a developer installed system, the Commission’s Rule 103 for Small Water Companies presumes that the system was fully contributed by the developer and that there is no rate base for ratemaking purposes.  Falls Water has indicated that it is prepared to consider the $2,500 purchase price as an acquisition adjustment not subject to rate base treatment.

The customers of Sargent, who currently pay a flat rate of $25.00, occupy conventional single family residences on lots approximately 12,780 square feet in size.  Falls Water feels the current $25.00 flat rate is equitable given the large lot sizes and potential higher per customer cost for regulatory analytical costs.  Staff analysis, however, indicates that the potential revenue requirement for the Sargent system indicates that the current flat rate fee may need to be reduced in the future to more closely track actual expenses.

Staff notes that Falls Water has no current plans to connect the two water systems, but may in the future if growth occurs and the vacant ground between the two water systems is developed.  Falls Water plans to operate the physical Sargent system on a stand alone basis.

Staff has discussed administrative and accounting procedures for the system with Falls Water and makes the following recommendations:

1.Staff proposes that rather than a transfer of the existing Sargent certificate to Falls Water, that the certificate be canceled and that Falls Water’s existing Certificate No. 236 be amended to include the Grayson Subdivision.

2.Staff proposes that Falls Water file an additional rate tariff sheet for the Grayson Subdivision as a part of its existing tariff schedules.

3.Staff proposes that the Company incorporate accounting for the Grayson Subdivision system into its existing system but maintain enough detail to separate operating results of the Grayson Subdivision system from Falls Water’s existing system.

4.Staff proposes that the purchase price be treated as an acquisition adjustment and not be included in future rate base calculations.

5.Staff proposes that amortization of the acquisition adjustment would not be included in operating expenses for rate making purposes.

6.Staff discussed the potential for installing meters and converting the customers in the Grayson Subdivision over to Falls Water’s metered rates.  The Company has indicated that it will install a master meter on the wellhead at its earliest convenience and monitor the water consumption of the system for a year.  The Company will then determine the financial feasibility of individual customer metering and installation of individual shut off valves in more accessible locations.

7.Staff proposes to maintain the current flat rate of $25.00 per month per customer for the Grayson Subdivision customers on an interim basis for one year.  At the end of this period, the Company must submit information describing planned improvements to the system (e.g., installation of individual meters and shut off valves) and submit an application to establish permanent rates for this system.

Staff reminds the Commission that Falls Water Company is incorporated as a non-profit corporation in the state of Idaho.  As a non-profit corporation, the Company cannot distribute “profits” to its owners.  Any net income realized from operations must be retained by the corporation for future repairs, replacements and expansion.  Falls Water Company maintains on its books a sinking fund to track these funds.  Any realized income or loss from future operation of the Sargent system will flow through to the sinking fund.

COMMISSION FINDINGS

The Commission has reviewed the filings of record in Case Nos. FLS-W-98-1/ SAR--W-98-1 including the comments and recommendations of the Commission Staff.  We find that the Application and record satisfies the underlying statutory and procedural requirements for certificate applications.  Reference Idaho Code §§ 61-526 and 61-528, and the Commission’s Rules of Procedure, IDAPA 31.01.01.112.

The Commission recognizes that Falls Water has the financial, managerial and technical capability to provide quality water service to the customers of Sargent.  It also has the ability and wherewithal to accommodate unforeseen circumstances and emergencies.  We find that the present and future public convenience and necessity would be served by the acquisition of Sargent by Falls Water.

We find Staff’s recommendations in this case to be reasonable and approve them.  Accordingly, we find it reasonable to treat the $2,500 purchase price as an acquisition adjustment, not subject to rate base treatment or included in operating expenses for ratemaking purposes.  We further find it reasonable to cancel the Sargent Certificate of Public Convenience and Necessity  No. 318 and amend the existing Certificate No. 236 of Falls Water to reflect the addition of the Grayson Subdivision, as more particularly described and reflected in Attachment 1 to this Order.

We further find it reasonable to authorize continuation of the present $25/month flat rate for Grayson Subdivision on an interim one year basis, during which time we would expect the Company to install a master meter on the wellhead, to monitor water consumption and to provide an accounting of operating expenses.  At the end of this period, we will expect the Company to file an Application and report with the Commission proposing permanent rates and describing planned improvements for the Grayson Subdivision customers.

CONCLUSION OF LAW

The Idaho Public Utilities Commission has jurisdiction over Falls Water Company, Inc.  and Sargent Well Company, water utilities, and the subject matter of this Application pursuant to the power and authority granted under Title 61 of the Idaho Code and pursuant to the Commission’s Rules of Procedure, IDAPA 31.01.01.000 et seq.

O R D E R

In consideration of the foregoing and as more particularly described and qualified above, IT IS HEREBY ORDERED that the Certificate of Public Convenience and Necessity No. 318 of  Lynn Sargent dba Sargent Well Company be canceled.

IT IS FURTHER ORDERED that the Certificate of Public Convenience and Necessity  No. 236 be amended to reflect the addition of the Grayson Subdivision, an area more particularly described and reflected in Attachment 1 to this Order.  Falls Water is directed to prepare and file an Amended Certificate for Commission approval.

IT IS FURTHER ORDERED and Falls Water is authorized to charge Grayson Subdivision customers a flat interim rate of $25 per month for a period of one year from the date of this Order.  Falls Water is directed to file an additional rate tariff sheet for the Grayson Subdivision as part of its existing tariff schedules.

IT IS FURTHER ORDERED and Falls Water is directed and required to account for the Grayson Subdivision system in a manner that allows its revenue and expenses to be separated and looked at on a stand-alone basis for purpose of determining permanent rates at the end of the interim period.

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                  day of July 1998.

                                                                                                                                       DENNIS S. HANSEN, PRESIDENT

                                                                                            RALPH NELSON, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

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That certain territory in Bonneville County, Idaho, more particularly described as the Grayson Subdivision of the Northeast 1/4, Section 10, Township 3 North, Range 38 East Boise Meridian, which is further described by the following metes and bounds description:

Beginning at a point 992 feet South 89° 41' 27" West of the Northeast Corner of Section 10, Township 2 North, Range 38 East, Boise Meridian, proceed along the North Section Line (which is Iona Road) 1,408 feet North 89° 41' 27" West; thence South 0° 18' 33" West for 175 feet; thence South 89° 41' 27" East for 1,408 feet; thence North 0° 18' 33" East for 175 feet (the beginning point).

**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

July 7, 1998