M E M O R A N D U M

Date:May 1, 1998

To:Scott Woodbury

George Fink

Terri Carlock

Stephanie Miller

Dave Schunke

David Scott

Working File

From:Bob Smith

Subject:Purchase of Sargent Well Co. System by Falls Water Cases FLS-W-98-1 and SAR-W-98-1

I have reviewed the joint application filed on April 3, 1998 by the two Companies, have reviewed our case and audit files for both companies and have requested additional information that has been expeditiously provided by Falls Water. In my opinion, the Staff should support the acquisition of the Sargent Well Company system as set forth below. As indicated in the responses to my questions, Falls Water will be willing to accept the position as outlined in this memo.

The Sargent Well Co. system was originally constructed in 1972 by the developer of the Grayson Subdivision. There are 15 lots in the subdivision but only 13 are connected to the water system.  The other two lots are served by private wells. The system consists of a 180' deep 8" diameter well located on part of lot 1, block 2 of the subdivision, a 10 HP pump, a 2,000 gallon hydro pneumatic pressure tank and the distribution main.

Lynn Sargent bought the system in 1990 for $5,000 and in 1992 requested and received a Certificate of Public Convenience and Necessity. A Flat rate of $25 per month was established simply 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. Staff did perform an audit of Sargent Well Co. in early 1995.

For tax purposes, 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 Company’s would assume the system was fully contributed by the developer and that there is no rate base for rate making purposes. In my communications regarding this status with Falls Water Company I asked if the Company would be willing to consider its $2,500 purchase price as an acquisition adjustment not subject to rate base treatment. The response was affirmative.

Falls Water Co. does have some Flat rate customers on its existing system. The rate for these customers is $10 per month. These customers are located in mobile home parks on relatively small lots of less than 6,000 square feet. The customers of Sargent occupy conventional single family residences on lots of approximately 12,780 square feet in size. The costs of compliance with safe drinking water regulations on a per well basis on the Falls Water system are spread among approximately 600 customers. These costs on the Sargent system must be spread among only 13 customers. I don’t believe the cost differential between the two groups of customers is unreasonable.

The Grayson Subdivision lies approximately ½ mile north of the Falls Water Well #5. Land between the Grayson Subdivision and the Falls Water system is agricultural with no current subdivision activity. Falls Water has no plans to extend a main from its current system to the Grayson subdivision but may in the future if growth occurs and the vacant ground is developed. Falls Water plans to operate the physical Sargent system on a stand alone basis.

My Proposal

I have discussed administrative and accounting procedures for the system with Falls Water. I proposed that rather than a transfer of the existing 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. Falls Water is indifferent. I propose that Falls water file an additional rate tariff sheet for the Grayson Subdivision as a part of it’s existing tariff schedules.  I proposed that the Company incorporate accounting for the system into its existing system but maintain enough detail to separate operating results of the Sargent system from Falls Water’s existing system. The Company believes this can be accomplished. I proposed that the purchase price be treated as an acquisition adjustment and not be included in future rate base calculations. The Company has indicated this is acceptable. I proposed that amortization of the acquisition adjustment would not be included in operating expenses for rate making purposes. The Company finds this acceptable.  I discussed the potential for installing meters and converting the customers in the Grayson subdivision over to Falls Water’s metered rates. The Company indicates that it will monitor the water consumption of the system for a year and then determine the financial feasibility of metering. Metering would also allow the installation of individual shut off valves in a more acceptable location.

I believe we should file comments in support of the application with the conditions described above.

I’ll be out of the office for three weeks beginning May 4th.