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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-98-1COMMENTS OF THE COMMISSION STAFF |

COMES  NOW  the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Application, Notice of Modified Procedure and Notice of Comment/Protest Deadline issued on April 29, 1998, submits the following comments.

The Commission Staff has reviewed the joint application filed on April 3, 1998 by Falls Water Company (Falls Water; Company) and Sargent Well Company (Sargent), has reviewed the case and audit files for both companies and has requested additional information that has been expeditiously provided by Falls Water.  Staff supports the acquisition of the Sargent system by Falls Water as set forth below.  Staff believes that Falls Water is willing to accept Staff’s recommendations outlined in this memo.

The Sargent system was originally constructed in 1972 by the developer of the Grayson Subdivision.  There are 15 lots in the subdivision but only 12 are connected to the water system.  There is one double lot and 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 Company 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 companies would assume the system was fully contributed by the developer and that there is no rate base for ratemaking purposes.  Staff’s communications regarding this status with Falls Water indicates that the Company would be willing to consider its $2,500 purchase price as an acquisition adjustment not subject to rate base treatment.

Falls Water Company 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, who currently pay a flat rate of $25 per month, occupy conventional single family residences on lots of approximately 12,780 square feet in size.  Falls Water feels the current $25 flat rate is equitable given the larger lot sizes and potential higher-per-customer costs for regulatory analytical costs.  However, Staff’s analysis of 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.

The Grayson Subdivision lies approximately one-half mile north of Falls Water Company’s 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 at this time 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.

STAFF’S PROPOSAL

Staff has discussed administrative and accounting procedures for the system with Falls Water.

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.  Falls Water is indifferent.

2.Staff proposes that Falls Water file an additional rate tariff sheet for the Grayson Subdivision as a part of it’s 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.  The Company has indicated this can be accomplished.

4.Staff proposes 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.

5.Staff proposes that amortization of the acquisition adjustment would not be included in operating expenses for rate making purposes.  The Company has indicated that this is acceptable.

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 it’s 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 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 it’s 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.

Staff recommends approval of the acquisition as qualified above.

Respectfully submitted this                        day of June 1998.

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