DECISION MEMORANDUM

TO:COMMISSIONER HANSEN

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COMMISSIONER SMITH

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WORKING FILE

FROM:SCOTT WOODBURY

DATE:JUNE 19, 1998

RE:CASE NOS. FLS-W-98-1

    SAR-W-98-1

PURCHASE/SALE AND PROPOSED TRANSFER OF CERTIFICATE

On April 3, 1998, Falls Water Company, Inc. (Falls Water) and 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 (attached).  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 DECISION

Staff recommends that the Commission approve purchase of the Sargent Water system by Falls Water as qualified above.  Does the Commission agree with Staff’s recommendations?  If not, what is the Commission’s preference?

Scott Woodbury

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