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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE APPLICATION OF BITTERROOT WATER COMPANY, INC. FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY AND TO SET RATES. | ))))) | CASE NO. GNR-W-95-2ORDER NO.  26436 |

Bitterroot Water Company (Bitterroot; Company) is a small new water company that provides water to homeowners in the Silver Meadows Subdivision in Kootenai County, Idaho.  On October 24, 1995, Bitterroot filed an Application with the Commission for a Certificate of Public Convenience and Necessity and to set rates.  On November 13, 1995, the Commission issued a Notice of Modified Procedure and Notice of Application seeking public comment on Bitterroot’s Application.  On December 14, 1995, the Commission issued Order No. 26268 and Certificate of Public Convenience and Necessity No. 319 and indicated that rates would be set at a later time.  On March 28, 1996, the Commission issued a Notice of Modified Procedure and second Notice of Application seeking public comments on rates for Bitterroot.  Commission Staff filed comments recommending approval of the proposed rates.  No other comments were filed.  By this Order the Commission sets rates for water services for Bitterroot customers.

BACKGROUND

Bitterroot is a small new water company that provides water to homeowners in the Silver Meadows Subdivision of Kootenai County, Idaho.  Denali Vandals, Inc. the developer of Silver Meadows Subdivision, installed the water system and incorporated Bitterroot to take over the operation and maintenance of the water system.  The Silver Meadows Subdivision is located approximately 15 miles north of Coeur d’Alene and 1.5 miles west of the Silverwood Theme Park located on US Highway 95.  Bitterroot presently serves 13 customers and estimates a potential of 105 customers as the subdivision continues to expand.

On October 24, 1995, Bitterroot filed an Application with the Commission for a Certificate of Public Convenience and Necessity. Bitterroot requested issuance of a certificate prior to rates being established so that prospective lot purchasers could obtain loan financing.On November 6-7, 1995, Staff examined the Silver Meadows Subdivision and Bitterroot water system. Staff concluded that the water system appears to be well-engineered and therefore recommended issuance of the Certificate. On December 14, 1995, the Commission issued Order No. 26268 approving Certificate of Public Convenience and Necessity No. 319 for Bitterroot to operate as a public utility. The Order specifically stated that “the Commission will determine rates for Bitterroot at a later time in a subsequent Order.”  Order No. 26268 at p. 3.

 On February 9, 1996, Staff submitted a report to the Commission recommending rates and rate design.  On March 28, 1996, the Commission issued a Notice of Modified Procedure seeking comments on Staff’s proposed flat rate of $20 per month, a $750 new service connection fee and an audit to be conducted within one year for the purpose of designing metered rates. Commission Staff filed comments supporting the proposed rates.  No other comments were filed.

FINDINGS

According to Staff,  Bitterroot, as a new company, has few historical records from which to develop revenue requirements or rates.  Water meters have been installed.  Bitterroot, however, has not measured the use of water nor charged any customers for water service at this time.  The Company does not have any employees and all work that has been performed to date has been done by the employees of the developer or its contractor.  Bitterroot does not have an accounting system in place and no meaningful financial records exist for the Company.  Staff claims that absent records regarding the use of water by customers, it is difficult to design a metered rate structure.  Therefore, Staff has proposed a flat monthly rate based on the Company’s Application of estimated monthly expenses.

A.  Revenue Requirement and Operating Expenses

The Application filed by the Company included an estimated monthly operation budget of $1,000.  This budget includes electricity cost of $100 per month, water testing fees of $250 for two wells, meter reading costs of $100, maintenance expense of $50 and a management fee of $500.  The management fee would include a sinking fund for future repair and replacement of water system equipment. This estimated budget is based on 52 customers. Staff’s calculations using the Company’s estimates would provide a monthly average bill of approximately $20.

Staff’s analysis indicates that it is unlikely the Company will collect its estimated cost of $1,000 per month since only 13 customers are currently connected to the system.  It is also unlikely the full 52 customers used to develop the budget will be connected within the first year. However, Staff indicates the Company considers this shortfall to be part of the cost of the subdivision development and is willing to absorb this cost initially.  We find that the estimated revenue requirement of $1,000 per month is reasonable.

Staff believes the estimated monthly water testing expenses of $250 are reasonable given the need to conduct initial Division of Environmental Quality (DEQ) testing on the wells, but are too high if viewed as a normal operating expense over the long-term.  Bitterroot has two wells which will supply water to the 52 customers.  The first well has been fully tested and approved by DEQ. This first well is providing the source of water for the current connections.  Normal testing expenses on this well should be approximately $12 per month.  The second well has not yet been approved by DEQ.  The initial tests on this well could easily exceed $2,200 with continuing monthly tests of $12.  Staff believes that the cost will be lower in the future as the initial testing of the second well should be a one time occurrence with less expensive DEQ fees thereafter.  We find that the above recommended water testing expense is reasonable given the initial testing needed for the second well.

Staff explains that the electricity cost of $100 per month is simply an estimate based on past bills.  The past electric bills reflect water consumption for flushing new lines as well as service to existing customers.  The flushing activity will be reduced considerably but, on the other hand, new customers will be connected adding to the demands on the pump.  We find Staff’s estimate for electricity costs to be fair and reasonable.

The meter reading expense estimate of $100 for a base of 52 customers computes to a cost of less than $2 per meter.  Given the size of the lots in the subdivision and the distance between meters, Staff does not believe an estimate of five meter readings per hour is unreasonable.  Using this assumption, the $100 works out to an hourly cost of $9.61.  Staff believes this is a fair estimate.  We agree and adopt Staff’s recommendation.

 The maintenance expense of $50 is an estimate of what may be experienced in the future given the lack of any historical data.  Based upon its experience in reviewing other small water companies, Staff believes that the $50 maintenance fee to cover the monthly cost of routine operation and maintenance of the system is reasonable.  We find that the estimated maintenance expense to be fair, just and reasonable.

The monthly management expense/sinking fund of $500 is an estimate of the Company.  Again, there is no experience with this Company upon which to base this estimate.  The Commission in past Orders has discussed the use of a management fee in lieu of a rate of return to recognize the responsibility of the owners.  The proposed sinking fund is a discretionary item. The Commission has approved a management fee similar to the one proposed for Bitterroot in Order No. 22880 (Case No. BNR-W-89-1) issued in December 1989 for Brian Water Company.  Staff believes there is merit in the concept, particularly if in the future the water system were to be transferred to the homeowners.  Although there is no historical basis upon which to measure this particular expense item, Staff believes the level of costs to a customer is reasonable given its experience with other water utilities.  We find Staff’s estimate for the management expense to be fair, just and reasonable and adopt Staff’s recommendation.

B.  Rate Design

The developer will install all facilities necessary to serve customers as the subdivision is developed. These facilities will include main line connections, meter bases, meters and stop valves.  Bitterroot has been charging a connection fee of $750 to recover the cost of customer connections to the main lines.  The connection fees are being refunded to the development company, Denali Vandals, Inc., which is owned in common with the water company.  According to Staff, this connection fee is comparable to fees charged by other water companies.  Staff recommends approval of this connection fee and the refund to the development company.  We find the above recommended fees to be fair, just and reasonable.

Staff has recommended that Bitterroot begin reading its customer’s meters immediately and establish an accounting system for the Company to track its operating expenses.  Staff also recommends that an audit be conducted after one year for the purpose of designing metered rates.  Staff and the Company have agreed that for the interim, a flat rate of $20 per month is reasonable.  The Company has agreed to begin reading meters in order to accumulate the data necessary to design a metered rate structure.  We find the rate of $20 per month to be fair, just and reasonable.

C.  Customer Relations, Rules and Regulations

The Commission’s Rules of Procedure, IDAPA 31.01.01 et seq., and Customer Relations Rules, IDAPA 31.21.01, et seq., apply to all public utilities in the state of Idaho.  These rules prescribe the terms and conditions under which regulated utilities must provide service.  The rules specify that the utility is required to adopt the policies and practice mandated by the Commission, including deposits, disconnections, and billings in accordance with Commission standards.  The utility is also required to file its proposed rate schedules, line extension policies and general service provisions with the Commission for its approval.  An annual report containing financial statements of the utility must be filed with the Commission.  Bitterroot, as a regulated utility, must comply with all Commission rules and regulations on customer relations.

FINDING OF FACT AND CONCLUSIONS OF LAW

The Commission finds that Bitterroot is a public utility pursuant to Idaho Code §§ 61-125 and 61-129.  Idaho Code §§ 61-301 and 61-307 require that the Commission establish just and reasonable rates for each utility.  The Commission’s Rules for Small Water Companies, IDAPA 31.36.01, generally state that capital investment in plant will be excluded from rate base.  Rule 103, “Presumption of Contributed Capital,” established a presumption that capital investment in the water system is contributed capital.

We find that because Bitterroot is a new company, established by the developer of the subdivision, it has no rate base at this time under the presumption of contributed capital.  We further find that the estimated operating expenses including the electricity cost of $100 per month, water testing fees of $250 for two wells, meter reading costs of $100, maintenance expense of $50 and a management fee of $500 are reasonable. We further find that the resulting estimate of revenue requirement of $1,000 per month to be fair and reasonable.  We find that the rates as set forth above are designed to recover the revenue requirement established and are fair, just, reasonable and nondiscriminatory.   We find that the $750 new service connection fee is comparable with similar fees charged by other water companies and is reasonable.

We find that because this system is new and there are no customer use data for the purpose of designing a metered rate structure, that the Company should begin reading the meters immediately and an audit should be conducted after one year for the purpose of designing metered rates.

O R D E R

IT IS HEREBY ORDERED that Bitterroot file tariffs of rates and charges in compliance with the terms of this Order no later than 30 days from the service date of this Order.  These rates are effective for service provided commencing three working days after the new tariffs are received by the Commission.

IT IS FURTHER ORDERED that Bitterroot file tariffs that incorporate the Commission’s Rules and Regulations as required by law and in compliance with this Order.

IT IS FURTHER ORDERED that an audit should be conducted after one year of the date of this Order for the purpose of designing metered rates.

THIS IS A FINAL ORDER.  Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No.  GNR-W-95-2 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this Case No.  GNR-W-95-2.  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 April 1996.

                                                                                                                                       RALPH NELSON, PRESIDENT

                                                                                            MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

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**COMMENTS AND ANNOTATIONS**

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**TEXT BOXES**

Office of the Secretary

Service Date

May 1, 1996