BITTERROOT WATER CO.

CASE NO. GNR-W-95-2

APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY

IDAHO PUBLIC UTILITIES COMMISSION STAFF REPORT

PREPARED BY:

ROBERT E. SMITH, SENIOR AUDITOR

IN CONSULTATION WITH

DONALD OLIASON, UTILITIES ENGINEER

&

ROSE SCHULTE, COMPLIANCE INVESTIGATOR

GENERAL

Bitterroot Water Co. (Bitterroot or Company) filed an application with the Idaho Public Utilities Commission (Commission) on October 24, 1995 seeking a Certificate of Public Convenience and Necessity.  The Staff (Staff) of the Commission conducted its investigation of Bitterroot the week of November 6, 1995.

The Company ownership is in common with a development company known as Denali Vandals Inc. (Denali) that has developed a subdivision known as Silver Meadows.  The subdivision is located north of Brunner Road between Old U.S. Highway 95 and Clagstone Road in Section 29, Township 53 North, Range 03 West, Boise Meridian, Kootenai County Idaho.  It is located approximately 15 miles north of the city of Coeur d'Alene, and 1.5 miles west of the Silverwood Theme Park located on U.S. Highway 95.  The subdivision lies on relatively flat terrain with less than 40' of variation in elevation.  Lots in the subdivision are approximately five to seven acres in size.  The Burlington Northern Railroad mainline bisects the subdivision.

Bitterroot Water Company was incorporated in Idaho on June 21, 1995 (Idaho Corporation No. 111082).  Denali Vandals is an Alaska Corporation that was qualified to do business in Idaho on February 17, 1995 (Idaho Corporation No. 109476).  Both corporations are in good standing with the Idaho Secretary of State.

Denali is developing the subdivision in three phases.  Phases one and two are nearly complete and the lots are being marketed.  Phase three will be developed beginning in the spring of 1996.  When the third phase is completed the subdivision will be composed of 116 residential acreage.  One additional 1 acre lot is dedicated to the Athol Fire District and a 10 acre parcel has been set aside for the Lakeland School District.

The water system is being installed by Denali.  Bitterroot Water Co. was created to take over the operation and maintenance of the water system once it is in place.  The common owners of the two company's are aware of the Commissions policy regarding recovery of the water system development costs through the sale of lots and realize there will be no capital investment or "Rate Base" recognized for the water system.

WATER SYSTEM

The Staff has received copies of the water system "as built" schematic drawings and toured the subdivision.  The drawings are a fair representation of the water system that has been completed to date and indicate a very well engineered system.  The majority of the main lines are 8" PVC.  One 6" PVC dead end main was installed in the only caul de sac in the subdivision to serve 5 lots and another dead end 6" PVC main serves 5 lots on the northernmost part of the subdivision lying easterly of the Burlington Northern Railroad along Old U.S. Highway 95.  Fire hydrants have been placed within the subdivision to provide fire protection.  Main line service connections, meter bases and 1" meters have been installed as the water lines were laid.  All that is necessary to connect customers as new homes are built is the installation of the individual service lines from the meters to the homes.  These service lines are the responsibility of the builder or homeowner.

Three additional dead end lines currently exist.  Two of these are located between phases one and three of the subdivision.  These dead end lines will be interconnected in 1996 when phase 3 of the subdivision is developed.  This interconnection will provide a looped system in that part of the subdivision.  The third dead end line lies in phase two of the subdivision.  There is a possibility this line may eventually be connected to another section of line lying outside the subdivision (see discussion following re. Rickle property) which will provide a looped system in this part of the subdivision.

The primary water supply for the subdivision is an 8" 464' deep well located in the first phase on lot two of block one in the southwest extreme of the subdivision.  The well is equipped with a 3 phase 480 volt 25 horsepower submersible turbine pump.  The well is capable of delivering 125 gallons per minute into the system.  A 100,000 gallon underground concrete storage reservoir is under construction immediately adjacent to the well house.  The reservoir, when completed in the spring of 1996, will include three 5 horsepower booster pumps.  The well house currently contains 6  250 gallon pressure tanks.

A secondary source of water is an existing interconnection with a system located to the east and south of the Bitterroot well.  Immediately across the Burlington Railroad tracks to the east of the Bitterroot well, an identical well was drilled by an unrelated party (Rickle).  The well house contains a 2,000 gallon pressurized storage tank.

Three members of the Rickle family own and are developing property adjacent to the Silver Meadows Subdivision.  The Rickle system will eventually provide domestic water service to 37 lots.  A 12" steel pipe was placed beneath the railroad track berm between the two well sites.  An 8" PVC water line has been installed inside this steel pipe and connects the two water systems.  The Rickle system is not included in Bitterroot’s' application for a Certificate of Public Convenience and Necessity.  No separate application has been filed for the Rickle system.

The Rickle supply and distribution system has been designed by the same engineering firm that designed the Bitterroot system.  The designs are compatible and in all reality resemble a single water system.  Bitterroot Water Co. is dependant upon part of the Rickle system to deliver water to phase two of the Silver Meadows subdivision.

A contract entitled "Water Use Agreement" between Bitterroot and Rickle provides the terms of the interconnection agreement.  Each party is to maintain its own distribution system.  Repair and maintenance of the distribution plant that is used in common by the two systems shall be shared by the parties.  The contract also provides for proration of the costs of operating and maintaining the two wells, well sites and pumps based upon the amount of water delivered to the customers of two systems.  The authority of the Public Utilities Commission is recognized within the contract.

A third land development project is also connected to the Bitterroot system.  A 6" PVC line crosses beneath Clagstone road immediately west of the Bitterroot well.  This line connects to a distribution system owned by members of the Gridley family.  The Gridley project is composed of a 4" PVC distribution system that will serve 25 to 28 lots.  The Gridley system also includes a well with a 25 horsepower pump and a 25,000 gallon storage reservoir with two 5 horsepower booster pumps.  The interconnection between the Bitterroot and Gridley systems is intended for emergency purposes only.  A post indicator valve is installed on the interconnection and is normally in the closed position.  Should one of the two systems experience an emergency, the interconnection valve would be opened providing an alternate source of water to either system.  The agreement between these two parties is an oral agreement.  No written contract exists.

REVENUES AND OPERATING EXPENSES

Bitterroot Water Company is a brand new system.  The Company only has 13 customers connected to the system at this time.  These customers have been connected for less than a year and have not been charged for the water service to date.  Even though the water system is metered, the Company has not read any of the meters.  The Company does not have any employees of its own.  All work that has been performed to date has been done by employees of the developer or its contractors.  The water company does not yet have an accounting system in place and no meaningful financial records exist for the Company.

As stated earlier in this report, The Company is aware of  the Commission Rule 103 for small water companies (IDAPA 31.36.01103) which establishes a presumption that capital invested in the water system is contributed capital.  The Company does not take exception to this rule.

The application contained the Companys' estimated monthly operating budget of $1,000.  This budget is very simple providing for pumping power of $100, water testing fees of $250 for 2 wells (Bitterroot and Rickle), meter reading costs of $100, maintenance expense of $50 and a management fee of $500 which would include a sinking fund for future major repair and replacement of water system equipment.  My discussion with the Company President, Jeffrey Cusick, revealed that this estimated budget is based upon a base of 52 customers.  The Companys' estimate would produce a monthly average bill $19.23.  The Company realizes that with only 13 customers currently connected, and the likelihood the full 52 customers would not be connected with 1 year, it would not collect its estimated costs of $1,000 per month.  The Company considers this shortfall to be part of the cost of subdivision development and, in the short term, is willing to absorb this cost.

The estimated monthly water testing expenses are too high if looked at as a normal operating expense for a going concern.  The Bitterroot well has been fully tested and approved by the Division of Environmental Quality (DEQ).  Normal monthly testing expenses on this well should be about $11 or $12.  The Rickle well however, has not yet been approved by the DEQ.  The initial tests on this well could very well exceed $2,200 with continuing monthly tests of $11 or $12.

The electricity cost of $100 per month is simply an estimate based upon past bills.  The past electric bill reflect water consumed 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 pumps.

The meter reading expense estimate of $100 for a base of 52 customers works out to a cost of under $2 per meter.  Given the size of the lots in this subdivision and the distances between meters, I don't believe an estimated 5 meter readings per hour is unreasonable.  Using this assumption, the $100 fee works out to an hourly cost of $9.61.  I believe this is a fair estimate.

The maintenance expense of $50 is simply a best guess estimate (allowance) of what may be experienced.  To date there is really no experience upon which to base this estimate but it doesn't seem unreasonable.

The monthly management expense/sinking fund is simply an arbitrary number.  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 rate of return to recognize the responsibilities of the owners.  The sinking fund is a presidential item.  The Commission has never authorized a fund of this type but, the Staff believes there may be merit to 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 companys' revenue requirement, Staff believes the level of cost to the customers is not unreasonable.  A rate designed to produce approximately $20.00 per customer per month is a reasonable level in the short term until some historical record is developed.  We would support a flat rate of $20.00 for approximately one year with a review of rate design to be completed early in 1997.  The Company is willing to accept this proposal and begin reading customers meters in order to accumulate the data necessary to design metered rates for the Company.

CUSTOMER RELATIONS

The Commission's Rules and Regulations on Customer Relations apply to all public utilities in Idaho.  These rules prescribe the terms and conditions for the customer to receive service.  The rules specify that the utility is required to adopt the policies and practices including deposits disconnections and billings in accordance with Commission standards.  The utility is also required to file its rate schedules, line extension policies and general service provisions with the Commission for its approval.  An annual report containing the financial statement of the utility must also be filed with the Commission.

SPECIFIC CONCERNS AND RECOMMENDATIONS

As discussed above, there are actually three separate and distinct systems under development in the vicinity of Silver Meadows subdivision.  Bitterroot Water Co. is the only one of the three systems that have applied to the Commission for a certificate.  The information we have gathered to date lead us to believe the other two systems (Rickle and Gridley) should also require a certificate.  Staff discussed this with Mr. Cusick of Bitterroot Water and suggested the three systems consider joining together as a single water company.  Mr Cusick indicated that this has been discussed but there was little interest in doing so.  He did not indicate that it was impossible.  Staff would strongly urge the principals of the three systems to give this option some serious consideration, particularly Rickle and Bitterroot whose water agreement make the two systems almost indistinguishable.

Staff recommended a certificate be issued to Bitterroot for the three phases of the Silver Meadows subdivision and the Commission issued Certificate No. 319 on December 13, 1995.  The principals of the Rickle and Gridley systems have been added to the service list in this case and should receive specific notice that the Commission requires them to file an application for a Certificate of Convenience and Necessity or show cause why they should not.  These parties should also receive a copy of this report.

Rates for the Company should be established at a flat rate of $20.00 per month.  The Company should be directed to begin reading meters in order to accumulate the data necessary to design the metered rates.  The Company should also be directed to begin recording its time and expenses associated with the operation of this water system.  The Staff of the Commission should perform a review audit of the Company in early 1997 to determine the appropriate metered rates for the system.

Respectfully Submitted,

Robert E.  Smith

res:audit.rpt\bsmith