MEMORANDUM

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IDAHO PUBLIC
UTILITIES COMMISSION

TO: MYRNA WALTERS
WORKING FILE

FROM: BOB SMITH

DATE: AUGUST 25, 1999

RE: STONERIDGE WATER CERTIFICATE APPLICATION
CASE NO. GNR-W-98-1.

Attached for filing in the above referenced case is Staff's Report regarding its investigation of this company's application. Please place the original of this report in the Commission's original case file.

A draft of this report was provided to Mr. Keith Garner, the owner of the Stoneridge Devleopment. Mr. Garner' comments and correspondence regarding this report are also attached.

STONERIDGE WATER
AND
SEWER COMPANY

APPLICATION
FOR
CERTIFICATE OF PUBLIC
CONVENIENCE AND NECESSITY

CASE NO. GNR-W-98-1

COMMISSION STAFF REPORT

August 24, 1999

Prepared by:
Robert E. Smith
Senior Auditor

George E. Fink
Engineer

Stoneridge Water and Sewer Company
Case No. GNR-W-98-1
Application for Certificate of Convenience and Necessity
Idaho Public Utilities Commission

BACKGROUND

Mr. Keith Garner filed an Application for a Certificate of Public Convenience and Necessity with the Idaho Public Utilities Commission (Commission) on July 22, 1998 for a water system serving the Stoneridge Golf Course, Lake Sans Souci Subdivision and Stoneridge Recreational Club Condominium Owners Association (SRCC). A sales office, pro-shop and maintenance building are included in the development. Mr. Garner is the sole proprietor and developer of the golf course, driving range, pro-shop, restaurant, recreation center, sale building, time-share condominiums, rental condominiums, and infrastructure including both water and sewer systems. The development is located off Blanchard Road in Sections 19 and 20, Township 54 North, Range 05 West, Boise Meridian, Bonner County, Idaho. The subdivision is located approximately one mile west of the city of Blanchard, Idaho.

Note the time-share condominiums have all been sold and an owners' association has been formed (i.e., Stoneridge Recreational Club Condominium Owners Association). The SRCC consists of four condominium buildings with 146 units and a recreation center with swimming pool and restaurant. This group filed a formal request on September 17, 1998 to intervene in the case.

Approximately 200 residential lots, each approximately one third of an acre in size, are located along the western side of the development. Only 29 residential customers were connected in the test year. Rental condominiums and commercial buildings are located in the center of the development. The Stoneridge Resort Golf Course is an 18-hole course located primarily along the eastern side of the development.

WATER SUPPLY SYSTEM DESCRIPTION

Staff has performed a field inspection of the development. The system has two wells with a total capacity of 1,400 gpm. These pumps discharge either directly into the distribution system or into a 315,000-gallon concrete storage tank located on a hill to the northwest of the wells.

The distribution system is looped through the property using 6-inch and 8-inch mains. A separate irrigation line is used to provide water to the golf course. The main lines appear to be looped and are valved adequately to isolate any potential problem areas without interrupting service to the entire system while repairs are being made. Meters are in place for the residential and multi-residential customers. The Company reportedly is repairing and/or installing meters on the golf course and commercial customers (i.e., pro-shop, sales office, etc.). The developer is currently constructing additional rental condominiums and associated recreational center.

CUSTOMER WATER CONSUMPTION

A limited amount of recent consumption data was submitted by the Company in its Application. Meter readings for January through August 1998 were submitted for residential customers and the SRCC service. No current meter readings were provided for the sales building, golf course, pro-shop and maintenance shop. It is the Staff's understanding that either meters were not installed or were in need of repair for these service connections. Additionally, it is the Staff's understanding the well master meter was also in disrepair at the time the Application was submitted. The Company did submit a report showing actual metered data for the total system, SRCC, and golf course for the years 1987, 1988 and 1989.

The total test year consumption for the system was estimated to be 48,674,870 gallons. Residential customers consumed a total of approximately 8,069,770 gallons and SRCC customers consumed a total of approximately 4,584,100 gallons. The other commercial customers (pro-shop, etc.) were estimated to consume 214,000 gallons. The largest consumption by far is attributable to the golf course, at an estimated 35,807,000 gallons (74% of total).

REVENUE REQUIREMENT ANALYSIS

Staff performed an audit of the Company's financial records. A copy of the Staff Audit Report is attached to this report. A summary of the findings from this report are presented below.

Revenue was estimated by the Company to be a total of $18,572, of which $6,000 was estimated to be paid by the golf course. Staff proposes a reduction in test year revenues of $120. The estimated revenues are therefore $18,452. Staff notes that the Company has no rate base. However, total expenses of $65,054 were submitted. Staff, in reviewing the Company's records, proposes a net reduction in expenses of $29,192. The revenue requirement for the Company was thereby determined by the Staff to be $37,062. The projected revenue shortfall at current rates is, therefore, $18,610.

CUSTOMER RELATIONS

In reviewing records of customer contacts regarding the Company, Staff noted there have been two specific incidents reported. In June 1997 a customer contacted the Commission regarding low water pressure and concerns that the water supply wells would be insufficient to serve the entire development. Additionally, the SRCC submitted several letters regarding an incident where coliform bacteria had been found in the drinking water system. The SRCC complained they had not been kept informed of the status of the incident and it had negatively impacted their business. The SRCC has formally requested to intervene in this case.

RATE DESIGN

The Company is currently billing residential customers an $8 per month flat rate and the SRCC a total of $883.50 per month. The golf course and other commercial customers have not been billed. Staff developed several alternative rate designs using the aforementioned consumption figures and a revenue requirement of $37,062. A summary of the results of the rate design analysis is given in the following table.

	Current Company Rates	Staff Rate Designs		
		Option A	Option B	Option C
Residential Customers – Est. Revenue Reqmt. $7,850				
Customer Charge ($/mth)	$8.00	$5.10	$21.00	$14.00
Commodity Charge ($/1000 gals/mth)		$0.68		$0.30
SRCC – Est. Revenue Reqmt. $3,750				
Customer Charge ($/mth)	$883.50	$53.00	$310.00	$200.00
Commodity Charge ($/1000 gals/mth)		$0.68		$0.30
Commercial Customers – Est. Revenue Reqmt. $900				
Customer Charge ($/mth)		$6.60	$25.00	$20.00
Commodity Charge ($/1000 gals/mth)		$0.68		$0.30
Golf Course – Est. Revenue Reqmt. $25,615				
Customer Charge ($/mth)		$105.50	$2,100.00	$1,200.00
Commodity Charge ($/1000 gals/mth)		$0.68		$0.30
Est. Revenue Surplus/ (Shortfall)	($23,676)	$467	$66	$61

Staff performed an abbreviated cost of service study. The rates suggested by this study are reflected in Staff Rate Design Option A. In all rate designs performed by Staff, no base consumption levels were set due to the minimal amount of current data available for all customer groups. Staff Rate Design Option B shows the flat rates required to achieve the revenue requirement for each customer class, whereas Option C represents a compromise position between Options A and B.

Staff recommends that Rate Design Option C be set for the Company. It achieves the apportionment of revenue requirement per the cost of service study, meets the revenue requirement, represents a good balance between the customer and commodity charges for all customers, and is expected to be a good introductory position for initiating metered rates to the customers.

Staff prepared a rate proof using the rate designs listed in the table to determine the potential impact on customers with maximum, minimum and average consumption patterns during the test year. The results of the rate proof, showing the estimated increase or decrease in the total annual bill, for each rate design, are summarized in the following table.

	Current Annual Bill	Increase in Total Annual Bill		
		Option A	Option B	Option C
Residential Customers– Est. Revenue Reqmt. $7,850				
Minimum Customer 2,500 gals/mth	$96	($17)	$156	$80
Average Customer 23,189 gals/mth	$96	$200	$156	$176
Maximum Customer 119,088 gals/mth	$96	$937	$156	$501
SRCC – Est. Revenue Reqmt. $3,750				
	$10,602	($6,849)	($6,882)	($6,827)
Commercial Customers – Est. Revenue Reqmt. $900				
		$899	$900	$913
Golf Course – Est. Revenue Reqmt. $25,615				
		$25,615	$25,200	$25,142

Note that in all cases the SRCC total annual bill will decrease. At current rates the SRCC customer would contribute to 29% of the revenue requirement but only use 13% of the water. The Staff proposed rates subsequently correct this inequity.

Under Staff recommended Rate Design Option C, the average residential customer will have annual charges increase approximately $176 per year, or 183%. Furthermore, the customers with minimum and maximum consumption patterns will incur increases in total annual charges of $80 to $501 per year (83% to 522%), respectively, assuming no changes in consumption patterns occur.

Although this increase is significant, Staff notes that the original, arbitrarily set flat rate of $8 per month was very low. Furthermore, the large increases in this case are primarily the result of the large increase in the revenue requirement. Setting of a meter rate will allow all customers to adjust consumption patterns if they desire to reduce the amount of their water bill, and Staff does expect customer consumption to decrease due to the higher rates set in this case. The Company will have the option to submit an application to modify rates in the event the reduced consumption significantly impacts revenues.

STAFF RECOMMENDATIONS

1. Staff recommends that the Commission process this case under modified procedure without hearing.

2. Staff recommends that the Applicant be directed to establish a new company, separate from the existing development company, for the sole purpose of providing water service to the residents and businesses located within the Stoneridge subdivision. Evidence of the formation of such a company shall be provided to the Commission.

3. Upon receiving evidence that a new company has been formed, Staff recommends that the Commission issue a Certificate of Public Convenience and Necessity to the company to provide water service to the Stoneridge development and adjacent reservoir property.

4. The Company should be directed to provide a detailed metes and bounds legal description of the area to be served by the company.

5. Staff recommends that the Company be directed to establish a separate accounting system for the water company. Furthermore, the Company should be directed to maintain receipts and time records in a fashion that enables efficient and timely audit of the financial records.

6. The Company should be directed to eliminate any costs associated with maintenance of the golf course irrigation system from the water company records. The owner should charge such costs as a cost of operating and maintaining the golf course.

7. Staff recommends the Company be directed to provide a copy of the Commission's notice to each customer within five days of receipt by the Company.

8. The Commission's notice should include a copy of the Staff's calculations showing the magnitude of the potential increase/decrease in annual bills for each customer group.

9. Staff recommends that the Commission accept the Staff's Rate Design Option C:

- Residential customers $14 per month and a commodity charge of $.30 per 1000 gallons.
- SRCC Owner Association $200 per month and a commodity charge of $.30 per 1000 gallons.
- Future multi-residential customers $40 per month and a commodity charge of $.30 per 1000 gallons.
- Commercial customers $20 per month and a commodity charge of $.30 per 1000 gallons.
- Golf course $1,200 per month and a commodity charge of $.30 per 1000 gallons.

10. The Company should be directed to install, read and maintain meters on all wells, residential, multi-residential, commercial and golf course customers.

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Case No. GNR-W-98-1

Idaho Public Utilities Commission
Staff Audit Report
Stoneridge Water System

Prepared by
Robert E. Smith
Senior Auditor

AUGUST 24, 1999

CASE NO. GNR-W-98-1

IDAHO PUBLIC UTILITIES COMMISSION
STAFF AUDIT REPORT

STONERIDGE WATER SYSTEM

PREPARED BY
ROBERT E. SMITH, SENIOR AUDITOR

BACKGROUND

Stoneridge is a golf resort development in Bonner County, Idaho near the community of Blanchard. Mr. Keith Garner of Salt Lake City, Utah is the sole proprietor of the development activities including the water system and a sewer system. The development consists of an 18-hole golf course, driving range, pro shop, restaurant, recreation center, swimming pool, maintenance building, timeshare condominium complex, rental condominiums and residential home sites. The platted subdivision is identified as the Lake Sans Souci Subdivision. The timeshare condominiums, a complex of 5 buildings, have all been sold and an owners' association for the complex has been formed. The timeshare complex includes a second recreation center with a swimming pool and restaurant. As a part of the development activities, the developer constructed a central water system and sewer system to provide service throughout the development including irrigation for the golf course. Development activities began in the early 1970s.

Mr. Garner filed an Application with the Idaho Public Utilities Commission on July 22, 1998, requesting a Certificate of Convenience and Necessity to operate the water system as a public utility in the State of Idaho. The Stoneridge Recreational Club Condominium Owners Association, Inc. filed a formal intervention in this case.

1997 TEST YEAR

Data supporting the Application was based upon calendar year 1997. I visited the site near Blanchard to begin an audit in September 1998 and learned that not all of the financial records were maintained on site. Much of the detail support is maintained in Mr. Garner's office in Salt Lake City, Utah. The financial support attached to the Application was for the entire operation of the golf course, associated pro shop, restaurant, rental condominiums and development activities including operation of the water system and sewer system. Very little detailed direct cost of operating and maintaining the water system is identifiable from these records. Ms. Donna Brown, the onsite manager, was very helpful but unable to provide all the detail necessary to complete an audit of the water system operations.

By letter dated September 21, 1998, I requested detail of the financial operation of the water system in isolation of the other activities. A response to this request was not received until January 19, 1999 in the form of an Idaho Public Utilities Annual Report for calendar year 1997 with supporting information. The report showed a net operating loss from water system operations of $46,412. The supporting information was incomplete for determining the derivation of each of the operating expenses reported.

I was unable to arrange an audit trip to Salt Lake City until March 1, 1999 when the accountant for Mr. Garner would return from Arizona. During that trip, I received clarification of procedures used to allocate costs to the water company. The majority of the costs reflected in the 1997 PUC Annual Report form were not directly charged to the water system operation but rather were allocated by the Applicant. Many of the allocations are somewhat arbitrary; not supported by time records.

ATTACHMENT "A"

Attachment "A" presents an income statement based upon the information provided in the Idaho Public Utilities Commission Annual Report. The first column presents the results of operations as reported by the Applicant in that report. Column "B" presents several adjustments to the reported expenses that I believe are appropriate for this system. The adjustments are enumerated on Attachment "B" to this report. The third column on Attachment "A" presents the income statement as adjusted by Staff.

I have not attempted to construct a balance sheet or determine a rate base at this time. As discussed above, the financial records for the water system are commingled with several other activities. As a developer-installed system, the Commission's Rule No. 103 for Small Water Companies assumes that the developer contributes the entire cost of the system and therefore the company has no rate base. The Stoneridge Development was begun in the early 1970s and undoubtedly there have been some repairs or equipment replacements that properly could have been capitalized. However, at this time with the commingled records, it would be extremely difficult to identify those improvements or replacements and determine appropriate accumulated depreciation in order to develop a proper rate base for ratemaking purposes. In the future, any major replacements of operating equipment should be well documented and capitalized for rate base purposes.

The water system needs to be totally separated from the owner's other business activities. Going forward, the Applicant needs to establish a totally separate checking account and a set of accounting records for the water system in conformance with the Uniform System of Accounts For Class C Water Utilities. Timesheets need to be maintained for employees working on the water system and detailed records of operating expenses need to be maintained and paid directly from the water system checking account. Maintenance of the golf course sprinkling system should not be charged as operating expenses of the water system. Rather, such maintenance should be charged to the operation of the golf course. If it is more convenient for Mr. Garner to maintain one payroll for all of his employees, it would be appropriate for the development company to bill the water system for labor; but such billing should be properly documented showing exactly what service and time was provided. Billings for costs incurred by the Salt Lake City office should be properly documented and paid by check from the water system account. Any other transfers of funds from the water system checking account for the benefit of the owners should be properly recorded as draws from the equity accounts.

The only records of revenues from customers are those for whom the water system has prepared bills. The water system has neither provided any billing nor recorded any revenues for service to facilities owned in common including irrigation of the golf course, service to the pro shop, restaurant, rental condominiums, maintenance shop, offices or recreation center. Meter readings for customers are non-existent until January of 1998. The master flow meter on the wells has been broken and inoperable for several years. The water system has been charging residential customers a flat rate of $8 per month and has been billing the Stoneridge Recreational Club Condominium Homeowners Association a flat rate of $883.50 per month. In response to my request, the Applicant estimated revenues from all of the commonly-owned facilities including the golf course would be $6,000 annually. I have used this estimate in the development of Attachment "A".

As shown on Attachment "A", after making the adjustments proposed on Attachment "B", the Net Income for the water system is a loss of $18,610.06 for the 1997 test year after paying all expenses including compensation for administrative services of the Salt Lake City office staff. Total Gross Revenue needs to cover all operating costs is indicated to be $37,062.06 or approximately double the amount reported by the Applicant.

ATTACHMENT "B" Adjustments

Adjustment "A" reduces the water system's reported electric pumping power expense by $224. The electric costs, as detailed on Attachment "A", show that checks were issued to pay electric costs in the amount of $8,392.79 during the test year 1997. The detail also shows that of this amount $1,503.10 was for power consumption in the previous year and that $908.33 was paid in 1998 for power consumed in the 1997 test year. Actual billings for power consumed in the test year total $7,798.02. The Applicant used an amount of $8,224 that I am unable to duplicate from the billing records. I have used an allowance of $8,000 as a liberal approximation of pumping power costs. This allowance is $224 less than proposed by the Applicant. This adjustment reduces operating expenses and increases both net income and owners equity by $224.

Adjustment "B" reduces the water system's reported water testing expenses by $119.78. This adjustment levelizes the water testing expenses based upon the frequency of the required water tests. As detailed on Attachment "B", some of the tests are required monthly, some biannually and others every 1, 3, 4, or 9 years. This adjustment levelizes those testing expenses over the frequency period. The Applicant used an amount of $1,187 for these water testing expenses. Levelizing the expenses for the frequency period produces an annualized expense level of $1306.78, indicating an adjustment of $119.78 is in order. This adjustment increases operating expenses by $119.78 and reduces both net income and owners equity by a like amount.

Adjustment "C" actually presents three separate adjustments all associated with labor costs. The water system, as noted earlier, is owned by Mr. Garner who also maintains an office in Salt Lake City, Utah. Labor costs allocated to operation of the water system include payroll from both Blanchard and Salt Lake City. In my opinion, some of this payroll is duplicative for functions performed in both locations that could easily be handled in Blanchard.

For administrative labor I have accepted the Applicant's allocation of cost for the onsite manager in Blanchard in the amount of $2,080. This amount is based upon the onsite manager's own estimation that only 10% of her time is required for water system administration. However, I believe that the Applicant's allocation of labor cost for the Salt Lake office in the amount of $12,000 is exorbitant. I have substituted an annual allowance of $1,000 for year-end preparation of financial statements and annual reports plus a management fee of $5,200. This $100 per week management fee is comparable with fees the Commission has allowed for other small water companies. The fee recognizes the time and responsibilities required of the system owner to oversee the overall operation of the company to insure compliance with applicable laws and regulations. The adjustment of $5,800 to administrative and general labor expense then is the difference between the Applicant's allocated cost of $12,000 and $6,200 developed above. The $5,800 adjustment reduces administrative and general expenses and increases both net income and owners equity by a like amount.

O&M labor claimed by the Applicant is composed primarily of one employee who receives a flat $360 biweekly to operate and maintain the water system. This employee also receives a flat $390 biweekly to maintain and operate the sewer system for the project. In addition, this employee helps maintain the golf course and related equipment for which he receives an hourly rate. No detailed timesheets are maintained showing the actual time devoted to the three activities. Assuming that this employee devotes 35% of his time (14 hours per week) to the water system, 35% to the sewer system and the remainder to the golf course, he would devote 28 hours per pay period to the water system at a rate of $12.86 per hour. This rate does not appear to be unreasonable in comparison to other small water company labor rates.

A second employee of the golf course works part time on the water system during the winter months. The Applicant estimated his time devoted to the water system to be 25% of the time during three (3) winter months. This ratio produces an assignment of his annual salary to the water system of 6.25%. At a salary of $1,100 paid biweekly, the assignment of labor cost should be $1,787.5 ($1,100 x 26 x 6.25%) rather than the $2,860 proposed by the Applicant. This reduction of $1,072.50 would decrease O&M expense and increase both net income and owners equity.

The third part of this adjustment is to restate payroll taxes in the amount of $1,554.20. This is a calculated number using 8% for FICA taxes and unemployment insurance. The Applicant used a rate of 6%. The adjustment increases expenses by $19.20 and reduces net income and owners equity by a like amount.

Adjustment "D" reclassifies a payment received for use of a backhoe from revenues to a contra expense. The company had rented a backhoe that was used by an independent contractor. The contractor was charged commensurately for the rental cost. The company recorded the fee collected as revenue rather than as an offset to its own rental expense. This adjustment has no effect on the company's operating results.

Adjustment "E" calculates an allowance for travel expenses. The Applicant included an allowance of $1,658.00. This amount includes an arbitrary 15% of all travel and entertainment expenses by Salt Lake City based employees to the water system in the amount of $764. This travel includes travel to Arizona for other unaffiliated business, travel cost of the developer's Salt Lake City based construction manager as well as the owner and other Salt Lake City based employees' travel expenses to visit the Stoneridge site. The Salt Lake City location is for the convenience of the owner and cost to travel to Blanchard should not be charged to the water company operation. The majority of the construction manager's travel was for building construction purposes, not water company business and the travel to Arizona was totally unaffiliated with the water company operation. Elimination of this $764 from the total travel expense leaves a residual of $894.00. This residual is equivalent to 2,840 miles per year at $0.31 per mile or 55 miles per week to deliver water samples, get supplies and travel around the service area. The residual does not appear to be unreasonable. The $764 adjustment reduces operating expense and increases both net income and owners equity.

Adjustment "F" is simply an adjustment to recognize that the company would have incurred regulatory fees due the Idaho Public Utilities Commission if it had been subject to the Commission's jurisdiction and included in the annual regulatory assessment calculation. This adjustment increases the company's operating expenses by $64.58 and decreases both net income and owners equity by a like amount.

Adjustment "G" provides an allowance for the use of office space, equipment and utilities including heating, cooling and telephone. The water company shares office space in common with other business activities of the owner. The allowance is arbitrary but in line with allowances the Commission has provided other small water company operators for use of their home offices. This adjustment increases operating expenses for the company in the amount of $1,200 and decreases both net income and owners equity by a like amount.

Adjustment "H" is a proforma adjustment to recognize the incremental cost the company will incur in the future. The company is installing chlorinating equipment on its wells. The adjustment is based upon the company's estimate that the chlorinating costs will be $600 per year. This amount does not appear to be an unreasonable estimate. The effect of this adjustment is to increase operating expenses by $600 and decrease both net income and owners equity by a like amount.

RECOMMENDATIONS

1. I recommend that the Applicant be directed to establish a new company for the sole purpose of providing water service to the residents and businesses located within the development and provide evidence of such formation to the Commission.

2. Upon receiving evidence that such a new company has been formed, the Commission should issue a certificate of Convenience and Necessity in that company's name for the provision of water service within the development.

3. The new company should be directed to establish a separate accounting system for the company consistent with the Uniform System of Accounts for Class C Water Companies adopted by the Commission.

4. The company should be directed to read meters every month for service to each location receiving water service from the company including the golf course irrigation system.

5. The company should be directed to eliminate any cost associated with maintenance of the golf course irrigation system from the water company records. The owner should charge such cost as a cost of operating and maintaining the golf course.

6. The company should be directed to repair and maintain the well flow meters in good working order and read those meters each month.

7. The company should be directed to maintain receipts and time records in a fashion that enables efficient and timely audit of the records.

8. The company should be directed to provide a detailed metes and bounds legal description for the Stoneridge Subdivision plus the adjacent property upon which the reservoir is constructed.

9. The company should be informed that it may petition the Commission for authority to change its rates at any time but in not less than 12 months from the time the new company is formed and receives a certificate from this Commission. Such petition for a change in rates must be supported by a full 12 months of meter reading data as described in Nos. 5 and 6 above.

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Stoneridge Water
Income Statement
Test Year 1997

	Reported By Company	Adjustments	Staff Proposed	Adjustment Reference
Revenues				
Unmetered (Golf Course Co. Est)	$ 6,000.00		$ 6,000.00	
Rental Condo's	-		-	
Rec Center & Pool	-		-	
Pro Shop & Restaurant	-		-	
Residential	1,850.00		1,850.00	
Commercial (Condo Assoc)	10,602.00		10,602.00	
Other (Backhoe Rent)	120.00	$ (120.00)	-	(D)
Total Revenue	$ 18,572.00	$ (120.00)	$ 18,452.00	
Operating Expenses				
Labor O & M	12,220.00	(1,072.50)	11,147.50	(C)
Labor, Admin-Idaho	2,080.00		2,080.00	
Labor A&G- SLC	12,000.00	(5,800.00)	6,200.00	(C)
Purchased Power	$8,224.00	($224.00)	$8,000.00	(A)
Chemical Expenses		600.00	600.00	(H)
Materials & supplies- O&M	2,881.00	(120.00)	2,761.00	(D)
Materials & Supplies - A&G	152.00		152.00	
Water Testing Fees	1,187.00	119.78	1,306.78	(B)
Transportation Expense	1,658.00	(764.00)	894.00	(E)
Insurance	734.00		734.00	
Deq Fees	135.00		135.00	
PUC Fees		64.58	64.58	(F)
Bank Charges	224.00		224.00	
Office Space Rent & Utilities	-		1,200.00	(G)
Total Operating Expenses	$ 41,495.00	$ (7,196.14)	$ 35,498.86	
Depreciation Expense	22,015.00	$ (22,015.00)	$ -	
Payroll Tax Expense (8%)	$ 1,535.00	$ 19.20	$ 1,554.20	(C)
Auto Licenses	9		9	
Total Expenses	65,054.00	(29,191.94)	37,062.06	
Net Income	$ (46,482.00)	$ 29,071.94	$ (18,610.06)	
Total Gross Revenue Required			**$ 37,062.06**	

ATTACHMENT A TO
STAFF AUDIT REPORT

Stoneridge Water
Staff Proposed Adjustments

Adjustment "A" Pumping Power

Billing Date	Basic Charge	Demand	Cost	KWH	Cost	(late fee) Net to Gross chg	Total Bill	Sub Totals
11/9/96		92.4	84.8	5080	390.5	5	480.3	
12/9/96		92.56	85.12	5320	399.5	23.77	508.39	
1/9/97		92.34	84.68	5480	405.5	24.23	514.41	**$ 1,503.10**
2/9/97		94.38	88.76	5980	424.25	0	513.01	
3/9/97		92.98	85.96	5300	398.75	25.65	510.36	
4/9/97		92.3	84.6	6580	446.75	24.24	555.59	
5/9/97		88.04	76.08	3580	334.25	0	410.33	
6/9/97		86.4	72.8	11040	614	0	686.8	
7/9/97		93.96	87.92	15780	791.75	34.34	914.01	
8/9/97		86.58	73.16	22900	1058.75	0	1131.91	
9/9/97		86.68	73.36	19040	914	56.6	1043.96	
10/9/97		88.28	76.56	11160	618.5	0	695.06	
11/9/97		88.08	76.16	3140	317.75	34.75	428.66	
total Paid 1997			1049.96		7114.25	228.58		**8392.79**
12/9/97		90.44	80.88	4060	352.25	0	433.13	
1/9/98		89.52	79.04	4660	374.75	21.41	475.2	**908.33**
2/9/98		92.94	85.88	5560	408.5	22.69	517.07	
3/9/98		91.16	82.32	3780	341.75	24.72	448.79	
4/10/98		89.78	79.56	3440	325.61	0	405.17	
5/11/98		93.36	86.72	10940	571.96	20.26	678.94	
6/10/98		87.32	74.64	8460	487.64	0	562.28	
7/9/98	200	86.9	73.8	15640	531.76	28.11	833.67	

Total Billed 1997 $ 7,798.02
Co used $8,224. Unable to duplicate
Use $8,000

Adjustment = $ (224.00)

Adjustment "B" Water Testing

Levelized Allowance	Levelized
Non-monthly water testing allowance (levelized)	
Lead & Copper (2 tests per Yr. @ $20)	$ 40.00
Radionuclides (1 test every 4 yrs @ $50)	12.50
IOCs (1 test every 3 yrs @ $150)	50.00
SOCs (1 test every 3 yrs @ $900)	300.00
VOCs (1 test every 3 yrs @ $250)	83.33
Nitrate (1 test Annually)	20.00
Nitrite (1 test every 9 yrs @ $20)	2.22
Sodium (1 test every 3 yrs @ $20)	6.67
Arsenic (1 test every 3 yrs @ $20)	6.67
	$ 521.39
Monthly Coliform Bacteria tests 12 @ $11	132.00
	$ 653.39
Number of Wells	2
Total Levelized cost	$ 1,306.78
Company Used	1,187.00
Adjustment	**$ 119.78**

ADJUSTMENT "C" LABOR EXPENSES

	Per Co.	Annual to Water	
D. Brown 10% time on Water	$800	$ 2,080.00	
K Rusho Flat Salary	$360	9,360.00	Amount Charged to Water. Note $390 charged to sewer. Combined produce annual salary of 19,500. Noted that much of time is spent performing golf course maintenance. Also noted that golf course irrigation piping is nearly equal to potable water piping. Pd separately for golf course maintenance activity.
T. Brown 25% winter months	$1,100	2,860.00	10% of yearly pay note: 25% of time for 3 Months = 6.25%
Labor A&G- SLC		12,000.00	Company $1000/ Mo. Estimate unsupported Note: Staff believes this is redundant A&G for benefit of owner. All could be adequately performed in Blanchard. $1,000 allowance for annual Prep of financial statements and reports and 4 hrs per week management supervision @ $25.

Staff Recommendation		
D. Brown OK	$ 2,080.00	
K. Rusho	9,360.00	14 Hrs/wk (35%) water @ $12.86/ hr
T Brown	1,787.50	6.25% of annual pay for 3 winter months
Salt Lake A&G Financials & Reports	1,000.00	
Management Supervision 4 Hrs / Wk @ $25	5,200.00	
Total Staff Recommendation	$ 19,427.50	

		per Co.	**Adjustment**
O&M	$ 11,147.50	$ 12,220.00	**$ (1,072.50)**
Administration- SLC	6,200.00	12,000.00	**(5,800.00)**
Administration Blanchard	2,080.00	2,080.00	
	$ 19,427.50	$ 26,300.00	$ (6,872.50)
Payroll Tax @ 8%	$ 1,554.20	$ 1,535.00	**$ 19.20**

ADJUSTMENT "D"

Remove Backhoe rent from Revenues and deduct from O&M Expense **$ 120.00**

ADJUSTMENT "E"
Transportation Expense

Per Company Report		$ 1,658.00	
Includes Travel Exp for SLC Staff 15% of $5,096.54 is arbitrary estimate.			$ 764.00
Residual	2,840 miles @ $0.315 per mile to deliver samples and pickup materials and supplies. No exception taken to residual 2,840 miles / 52 weeks = 55 miles / week		894.00
			$ 1,658.00

ADJUSTMENT (Remove 15% SLC staff travel) **$ 764.00**

ADJUSTMENT "F"
PUC Fees

To recognize fees that would have been payable to the Idaho Public Utilities Commission had the Company been subject to the Commission's regulatory fee assessment at .35% of revenues during the test year. **$64.58**

ADJUSTMENT "G"
Office Space Rent Allowance

Arbitrary $100 per month allowance for use of office space by the water company including office equipment and utilities. Office space, equipment, heating cooling and telephones are all in common with other business activites. **$ 1,200.00**

ADJUSTMENT "H"
Chemical Expenses Adjustment

The Company is installing chlorination equipment at the wells. No expenses were incurred during the test period. This is a proforma adjustment is based upon an estimate of the cost by the company that does not appear unreasonable. **$600.00**

IDAHO PUBLIC UTILITIES COMMISSION

FAX Correspondence

To: Donna Brown

Susan Stewart

Keith Garner

Fax: (208) 437-3864

(801) 355-6640

Date & Time: July 13 1999 (11:53 AM)

From: Bob Smith

George Fink

Re: Draft Staff Report

This transmission is 21 page(s) including the cover sheet. gdk

MESSAGE: Attached is a Draft of our report and recommendations. Please review this Draft and provide a written response with any comments, objections or concurrence with our findings.

This report has not been filed officially with the Commission. Upon receipt of your comments, we will finalize the report and file it with the Commission for their action.

We may or may not make changes to the report based upon your comments. In any event, your comments will also be filed with the Commission for its consideration.

P. O. Box 83720, Boise, Idaho 83720-0074
Telephone: (208)334-0300 Facsimile: (208)334-3762

Stoneridge
1204 East South Temple
Salt Lake City, Utah 84102

August 15, 1999

Robert E. Smith
Idaho Public Utilities Commission
P. O. Box 83720
Boise, Idaho 83720-0074
208.334.0300
208.334.3762 fax

RE: Draft Staff Report
July 12, 1999

Gentlemen:

In reference to the above report, we offer the following comments:

Background
Page 1 Mr. Garner did not develop the golf course. It was in existence at the time of his purchase. Mr. Garner did not develop the timeshare condominiums. A Mr. Nelson marketed those. When he went into bankruptcy Mr. Garner acquired this property in foreclosure from Zion Bank. Mr. Garner had previously owned all of the property.

Water Consumption
Page 2 Your estimate of 48,674,870 gallons apparently has no factual basis, so those figures are incorrect. Please note that the golf course only uses water in the summer.

Revenue Requirement
We object to the reduction in total expenses, which apparently consist of $22,015 depreciation and $7,177 of other expenses. We believe the expenses submitted for 1997 were understated, if anything. Since Mr. Garner did not market the timeshare condominiums, he should be entitled to recover his costs through depreciation or some charge for capital recovery.

Customer Relations
Page 3 Please furnish data regarding complaints.

Rate Design
The rate designs are apparently based on the estimated water consumption in gallons on Page 2. See also comment above regarding depreciation.

page 5 Recommendations

#2 Please note that the formation of a new company may materially increase the operating expenses. We feel the present accounting system is adequate and cost effective.

#4 We can furnish a legal description of the property owned by Mr. Garner.

#5 See #2 above. We will keep time sheets separate for the water service.

Thank you for your consideration of these material concerns.

Sincerely,

Keith E. Garner

Keith E. Garner

Eugene L. Kimball

Eugene L. Kimball

****END****

IDAHO
PUBLIC UTILITIES
COMMISSION

Dirk Kempthorne, Governor

P.O. Box 83720, Boise, Idaho 83720-0074

Dennis S. Hansen, President
Marsha H. Smith, Commissioner
Paul Kjellander, Commissioner

August 17, 1999

Post-it® Fax Note 7671	Date 8/17/99 # of pages ▶ 2
To Garner/Kimball	From Bob Smith
Co./Dept. Stoneridge	Co. P.U.C
Phone #	Phone (208)334-0336
Fax (801)355-6640	Fax (208)334-3762

Mr. Keith Garner
Mr. Eugene Kimball
Stoneridge
1204 East South Temple
Salt Lake City, Utah 84102

Dear Messrs. Garner and Kimball:

We received your facsimile response to the draft Commission Staff Report this morning. We have a couple of questions regarding your response.

Regarding the "Background" section of the report, will you please clarify the chronology regarding the development of the Stoneridge project. We understood through discussions with Donna Brown, Susan Stewart, and yourselves that a Mr. Dolan was the original developer of the properties in the mid to late 1970's. You bought his interest in the project early in the development process in 1979. You then continued with the development of the project.

In 1980 you sold an interest in the project to Mr. Nelson and the two of you continued with the development until 1982 when you sold the remainder of the project to Mr. Nelson and held a note with a lien against the property. In 1992 Mr. Nelson filed bankruptcy on the project and Zion National Bank foreclosed on the mortgage they held against the property. To protect your interest in the project, you then stepped forward and repurchased the project from the bank and have been continuing the development activities since that time.

Please correct any misunderstandings we may have regarding this chronology. Specific dates and financial considerations regarding sale and transfer activities would be very helpful.

Second, regarding the estimated water consumption, we utilized the best information we had at our disposal including the *James A. Sewell and Associates Report* attached to your application from which golf course consumption was extrapolated. You indicated in your response that you believe this estimate is not correct but you did not provide an alternative estimate of your own. If you have more current or accurate data, please provide same.

Please provide your response as soon as possible. We will file our report with the Commission no later than Friday of this week and will incorporate corrections and clarifications based upon your response to these questions.

Both your original response received this morning and your response to this letter will be filed with our report to the Commission.

Sincerely,

Robert E. Smith
Senior Auditor

George E Fink

George Fink
Staff Engineer

Stoneridge
1204 East South Temple
Salt Lake City, Utah 84102

August 18, 1999

Robert E. Smith
Idaho Public Utilities Commission
P. O. Box 83720
Boise, Idaho 83720-0074
208.334.0300
208.334.3762 fax

RE: Draft Staff Report
July 12, 1999

Gentlemen:

In response to your letter dated August 17th, we offer the following comments:

<u>Background</u>

Stoneridge was developed by Gordon Dolan and was foreclosed by Chicago Title Company.

Mr. Garner purchased the project from Chicago Title Company in February 1978, consisting of the golf course (in poor condition), forested acreage on the north side of the road and some improved lots.

During 1979 three condo buildings were constructed and a recreation building and the water tank and sewer system.

On March 1, 1980 an agreement for "Sale and Purchase was entered into between Garner and Nelson, with a 50% interest for each party. Mr. Nelson was to invest $1,000,000 for additional development costs and assume the $1,400,000 liability due Zions Bank, and be the managing general partner and market the developed units as timeshare, not condos.

A disagreement arose shortly about the amount of development costs and resulted in the transfer of the 50% Garner interest in the project to Nelson on August 12, 1980 for the amount of $2,900,000 due in installments, interest at 10% per annum. The note was not secured by the property but carried the right to take over the venture.

Whereupon Nelson marketed the existing units and constructed thirty-five additional, which were also sold. Nelson also made payments on the $2,900,000 unsecured note for the years 1980, 1981, 1982, and 1983. He then refused to make any more payments. The principal balance then was $1,860,021, and interest accumulated ate the rate of $186,002 per year.

Garner proceeded with legal action to collect the debt. The Zions Bank loan was also in default. Nelson declared bankruptcy in

1990, case 90-01362 and filed a plan of reorganization in June 1991.

Zions Bank transferred their interest in the Bonner Company (Nelson) Bankruptcy to Garner for $825,000. Garner agreed that Nelson would retain the 320 acres north of the road (excluding the water tank and access thereto) and the bankruptcy was over. In addition, Mr. Garner also assumed an unrelated liability of Mr. Nelson's to settle all the disagreements.

Water Consumption

Meters are being installed for all areas of usage and we will be able to accurately measure it from now on. There is no way to measure it now. The golf course uses water in the summer season, none in the winter. The timeshare owners use it year round.

If any other information is needed, notify us by FAX.

Sincerely,

Eugene L. Kimball (ss)

Eugene L. Kimball

ELK/ss