(text box: 1)BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE APPLICATION OF MCGUIRE ESTATES WATER COMPANY FOR AUTHORITY TO INCREASE ITS RATES. | )))) | CASE NO. MCG-W-98-1ORDER NO. 27658 |

APPLICATION

McGuire Water Estates Company (McGuire Estates; Company) on March 4, 1998, and by amendment on March 23, 1998, filed an Application in Case No. MCG-W-98-1 with the Idaho Public Utilities Commission for authority to increase and change its rates for water service.  McGuire Estates is a public water utility with one well serving approximately 63 customers within the McGuire Estates Subdivision along the north side of the Spokane River in Kootenai County, Idaho.  A Notice of Application in MCG-W-98-1 was issued by the Commission on March 30, 1998.

The Company in its Application requested authority to increase its tariff Schedule 1 rates for non-metered and metered residential customers as follows:

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|  | CURRENT | PROPOSED |
| Minimum chargeCommodity charge | $11.13/mo.$0.47/1000 gal. over 10,000 gal. per customer per mo. | $17.00/mo.$0.65/1000 over 10,000 gal. per customer per mo. |

Unmetered customers’ bills are based upon the average per customer consumption as measured at the well.  The rates proposed by the Company would produce an increase in revenues of $5,239 or 39.3%.

McGuire Estates has had no change in its service rates since August 9, 1990.  Reference Case No. MCG-W-90-1, Order No. 23272.  The Company contends that a rate increase is required due to the fact that operating costs have increased, that additional testing is required for federal Safe Drinking Water Act compliance, and because the Company has incurred replacement and repair expense for fire hydrants and its master meter.  Included with the Company’s Application are Exhibits showing amounts of loss for the past two years, statements of financial position at year end December 31, 1997, and projections for the year ending December 31, 1998.

COMMISSION STAFF REPORT

The Commission Staff has completed an investigation and audit of the Company’s financial records and physical plant in service, and on June 16, 1998, filed its written report with the Commission Secretary setting forth its findings and recommendations.

Using a 1997 test year, Staff calculated a total requirement for McGuire Estates of $16,085, and a resultant revenue deficiency of $2,773.  This translates to a required average increase in rates of 20.83%, or approximately $3.67 per month per customer.  Calculation of the revenue requirement incorporates a return of 12% on a Company rate base of $5,416.  Staff recommends that the base service minimum charge be increased from $11.13/mo. to $14.20/mo. and the commodity charge be increased from $0.47 to $0.54 per 1,000 gal.  (above 10,000 gal. per customer per month).  Staff notes that this represents an annualized increase of 2.4% per year over the eight-year period since the Company’s rates were last adjusted.

The primary difference between the Company and Staff calculated revenue requirement is a double count of depreciation expense and the elimination of water tests for which the Company has recently received an exemption.  The Company has reviewed Staff’s report and has indicated that the result is acceptable.

Rate base for the Company is comprised entirely of major improvements and repairs.   The original cost of the developer installed system including the well, pressure vessel, electronic controls, well house and distribution system are considered contributed property under Rule 103 of the Commission’s Rules for Small Water Companies and is not included in rate base. As reflected in Staff’s report and by subsequent documentation furnished by the Company, it is noted that the Company has incurred an extraordinary out of test year May 1998 expense of $2,988.09 for well repair.  Of this amount, $2,156.93 was paid to R.C. Worst Co. to pull a pump, replace a bad check valve and reinstall the pump.  To pull the pump, part of the well house had to be dismantled.  An additional $831.16 was paid to repair and re-roof the portion of the well house that was dismantled.  As calculated by Staff, if the capitalized cost of this extraordinary known and measurable expense was included as an addition to rate base, rate base would increase to $8,404; the total additional revenue requirement would increase by $648 to $16,733; base rates would change from $14.20 to $14.75; and the commodity charge would increase from $0.54 to $0.56 per 1,000 gallons in excess of 10,000 gallons per month.

CUSTOMER COMMENTS

The Commission Secretary has received three letters from customers in response to the Commission’s Notice.  One customer opposes the rate increase stating that there has been no improvement in the water system over the last 20 years, i.e., same low water pressure and outdated fire hydrants that would not put a fire out if needed.  Two other customers express concern that this water system might be connected to an adjacent planned mobile park, which is owned by the Lundys.  Staff inquired into this matter and found no basis for this concern at this time.  It is noted that the Company included a notice of its Application for a rate increase with its March 2, 1998, water utility bills.

COMMISSION FINDINGS

The Commission has reviewed and considered the filings of record in Case No. MCG-W-98-1 including the filed report and recommendations of Commission Staff, the letter response of the Company and the written comments filed by Company customers including those comments filed in response to Commission Notice of Proposed Order issued June 23, 1998.  We have also reviewed the Company’s documentation for the known and measurable out of test year well expense.  The adjustments, rate base calculation and revenue requirement calculation made by Staff as reflected in its filed report and related attachments, we find to be reasonable.  We also find it to be reasonable to include the known and measurable out of test year well repair expense as an addition to rate base.  Including and adjusting for same, we find the annual revenue deficiency for McGuire Estates to be $3,421.  To eliminate the revenue deficiency we find will require an average increase in rates of 25.7%.  The calculation of the revenue requirement incorporates a 12% return on the Company calendar year 1997 adjusted rate base of $8,404.  We find such a return to be comparable to returns for other small water companies in Idaho and reasonable for McGuire Estates.  We also find the calculated revenue deficiency and the Staff audit and related adjustments to be uncontested and a true representation of the Company’s financial condition for purpose of determining fair, just and reasonable rates.  Reference Idaho Code §§ 61-622, 61-623.

We further find reasonable and authorize the increase to be collected by the Company in the following manner:  Base service minimum charge $14.75; Commodity charge $0.56 per 1,000 gallons in excess of 10,000 gallons per month.  We specifically note that the DEQ annual administrative fee is embedded in the rates that we approve and is not to be assessed as a separate line item charge on customer billings.

The Commission finds that the approved rates will generate the authorized calculated revenue increase under normal conditions.  The Company is directed to file tariffs in compliance with this Order to reflect the allowed rate increase.

Regarding customer comments, the Commission notes that concerns regarding adequate pressure for fire flows is a safety issue that should be directed to area fire authorities or the State Fire Marshall.  The State establishes minimum pressure requirements during peak hour demand (excluding fire flows) for public water systems.  It is the Commission’s understanding that the Company is in compliance with those requirements.  We note, however, that low water pressure is a problem that often manifests in unmetered systems where water is provided at a flat rate regardless of usage, and in areas of water systems where the main distribution lines are not looped.  The problem is further exacerbated in systems with one well.  If the perceived pressure problem persists, the Company and its customers are encouraged to explore additional wells, system metering, and system looping remedies.

Regarding plans for future expansion of facilities, the Commission is apprised pursuant to Staff inquiry that the Company has no present plans to extend or expand its facilities.  McGuire Estates is a one well system and may be constrained to expand further without providing an additional water source.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over McGuire Estates, a water utility, and issues presented in Case No. MCG-W-98-1, pursuant to the authority and power granted the Commission under Title 61 of the Idaho Code and pursuant to the Commission’s Rules of Procedure, IDAPA 31.01.01.000 et seq.

O R D E R

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED that McGuire Estates Water Company is hereby authorized to increase its annual revenue requirement by $3,421, and to recover same in the manner set forth above effective August 1, 1998.  The Company is directed to file compliance tariffs prior to billing any increase.

THIS IS A FINAL ORDER.  Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order.  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 June 1998.

                                                                                                                                       DENNIS S. HANSEN, PRESIDENT

                                                                                            RALPH NELSON, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

vld/O:MCG-W-98-1.sw3

**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

July 30, 1998