DECISION MEMORANDUM

TO:COMMISSIONER HANSEN

COMMISSIONER NELSON

COMMISSIONER SMITH

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TONYA CLARK

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DAVE SCHUNKE

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DAVID SCOTT

WORKING FILE

FROM:SCOTT WOODBURY

DATE:JUNE 10, 1998

RE:CASE NO. MCG-W-98-1

McGUIRE ESTATES WATER CO.

APPLICATION FOR RATE INCREASE

McGuire Estates Water Co. (McGuire Estates; Company) on March 4, 1998 and by amendment on March 23, 1998, filed an Application with the Idaho Public Utilities Commission for authority to increase and change its rates for water service.  Reference Idaho Code §§ 61-622, 61-623.  McGuire Estates is a public water utility with one well serving approximately 61 customers (2 have dual hook-ups)  in the Post Falls, Idaho area.

Specifically, the Company in its Application requests authority to increase its Tariff Schedule 1 rates for non-metered and metered residential customers as follows:

|  |  |  |
| --- | --- | --- |
|  | CURRENT | PROPOSED |
| Minimum Charge  Commodity Charge | $11.13/month  $0.47/1000 gal. over 10,000  gal. per customer per month | $17.00/month  $0.65/1,000 gal. over 10,000  gal. per customer per month |

Unmetered customer’s bills are based upon the average per customer consumption as measured at the well.  Customers may elect to have a meter installed and have their bills calculated using their individual measured consumption.

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 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.  Appendix D to the Company’s Application calculates a need for gross revenues of $17,129, yet Appendix E indicates that total revenues of $18,551 would be produced by the Company’s proposed rates.  The rates proposed by the Company would produce an increase in revenues of $5,239 or 39.3%.

A Notice of Application in Case No. MCG-W-98-1 was issued by the Commission on March 30, 1998.

Staff Analysis

Staff has completed its review of the Company’s Application and on May 4, 1998, visited with the owners to review the financial records for the Company.  Attached is Exhibit A showing the revenue requirement that Staff believes is just and reasonable for the Company.

The Company’s last rate increase was in 1990.  The Exhibit A attached, using 1997 as the test year, produces a revenue requirement of $16,085 representing a 20.83% increase of $2,773 over the 1997 revenues of $13,312.  Although Staff’s proposed 20.83% increase looks large, the average monthly effect on customers would be an increase of $3.67 from $17.61 to $21.28 and represents an annualized increase of 2.4% over the eight-year period since the Company’s rates were last adjusted.

Staff has discussed its calculations with the Lundy’s, owners of the Company, and they have indicated the result was acceptable.  The primary differences between the calculated revenue requirement shown on Exhibit A to this memo and the revenue requirement calculated by the Company are a double count of depreciation expense and the elimination of water tests for which the Company has recently received an exemption.

The Lundy’s have expressed a desire to recover a larger portion of the total revenue requirement from base rate and less through the commodity portion of rates and a preference that an even dollar amount be set for the base rate.  Staff has considered an appropriate rate design and recommends increasing the base service charge to $14.20 per month and the commodity charge to $.54 per thousand gallons (above ten thousand gallons per customer per month).

The assumptions used in Staff’s rate design include: 63 hookups in the water system; the 10,000 gallons per month consumption allowance; and, retaining the current metered and unmetered customer rate schedules.  Modification of the rate design to a flat rate was not considered to be necessary since all parties appear to be satisfied with the current structure.  In addition, an overage volume of 9,972,000 gallons per year was used in the rate design.  This value was the average for the last three years, as reported by the Company: 1995—10,621,760 gallons; 1996—10,791,000 gallons; and 1997—8,502,980 gallons.  Staff’s rate design analysis is attached.  Staff’s rate design achieves the goal of the Company by having a larger percentage of total revenue from the base service fees.  This rate structure spreads the rate increase on both base service and commodity fees, but is not expected to cause an excessive increase in summer billings.  Further, this rate design is not expected to cause revenue to vary more than plus or minus 5% from the revenue required given the variability in water usage.

The Company has reviewed Staff’s proposal and by letter dated June 8th finds it to be fair and reasonable and requests that the Commission proceed with the processing of its Application.

Customer Comments

The Commission Secretary has received three customer comments  in response to the Commission’s Notice.  One customer opposes the rate increase stating that it has not seen any improvement in the water system over the last 20 years, i.e., same low water pressure and outdated fire hydrants that wouldn’t put a fire out if needed.  Two other customers express concern that this water system could 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.

Staff Recommendation

Staff recommends that the Commission issue a Proposed Order approving an increase in the amount recommended by Staff and the Company.  Staff recommends that the matter be processed pursuant to Modified Procedure and that a standard comment period be established.

Commission Decision

Does the Commission on the basis of Staff’s investigation, audit and report accept the recommended rate base calculation and revenue requirement calculation and resultant rates to be just and reasonable?  Does the Commission find the Staff proposed procedure to be reasonable?  If not, what is the Commission’s preference?

Scott Woodbury

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