MCGUIRE ESTATES WATER COMPANY

APPLICATION FOR AN INCREASE IN WATER CHARGES

CASE NO. MCG-W-98-1

COMMISSION STAFF REPORT

JUNE 8, 1998

Prepared by:

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and

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GENERAL

Mc Guire Estates Water Company filed an application on March 4, 1998 to increase its rates and charges for water service by approximately 39%. The Company provides water service to 63 customers within the McGuire Estates subdivision located along the north side of the Spokane River in Kootenai County, Idaho approximately one mile west of the city of Post Falls.  The Commission Staff has investigated the application and files this report containing our findings and recommendations.

SUMMARY RECOMMENDATIONS

Staff recommends an increase in annual revenues of $2,773 or approximately 20.83%. Although this increase may appear large, Staff notes that 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% per year over the eight year period since the Company’s rates were last adjusted. Attachment “A” to this report is Staff’s calculation of the required revenue increase.

Staff further recommends that the required revenue requirement be collected by increasing the Company’s base rate for the first 10,000 gallons per month from $11.13 to $14.20 and increasing the commodity charges (over 10,000 gallons per month) from $0.47 to $0.54 per thousand gallons.

Prior to filing this report, Staff presented its recommendations to the Company for review and comment. Attachment “D” is a copy of the Company’s response concurring in the Staff’s recommendations.

DISCUSSION

Staff’s investigation included a review of the Commissions past case files, annual reports filed with the Commission, prior audit reports and an on site visit to review the Company’s financial records and physical plant in service.

At the time of our on site visit (May 4,1998) the Company was experiencing problems with its well. The owners were in the process of personally contacting every customer by phone to inform them that the well would be out of service for most of the next day in order to make necessary repairs. Subsequent to our visit, Staff has been informed by the owners that the cost of the repairs required were approximately $3,000. This repair cost is not included in either the Company’s application or Staff’s recommendations included in this report. Rather than delay authorization to increase rates by filing an ammended application to recognize this cost, the owners of the Company have elected to let the application stand as filed and have concurred in the Staff’s recommendations.  Staff does note that if the Commission were to recognize the effect of this post test year expendature, the Company’s rates would be increased by an additional $650 annually ($0.86 per customer per month) resulting in an increase of 25.7% rather than the 20.83% recommended by staff based upon the test year data.

Revenue Requirement

The Company’s total test year 1997 revenue requirement as calculated by Staff is presented on Attachment “A”. Rate Base for this Company is composed entirely of major improvements and repairs made to the system. The original cost of the developer installed system including the well, pressure vessel, electric controls, well house  and distribution system are considered contributed property under the Commissions rule 103. The total rate base of $5,416 shown on Attachment “A” is composed entirely of these major improvements and repairs. The unaudited repair to the well made in May of 1998 is not included in this rate base. Recognition of that repair would increase the rate base from $5,416 to approximately $8,416.

Staff has utilized a rate of return on rate base of 12% assuming the equity return authorized by the Commission for several years on small water systems. The capital structure of McGuire Estates Water Company is entirely owner equity, the Company has no debt. This equity return when applied to the rate base produces a net income requirement of $650. The Company provided staff with the owners Federal Income effective tax rate of 20% translates to a net income to pre tax income multiplier of 125%. When applied to the net income requirement of $650 the multiplier produces a pretax income requirement of $812.  Expenses of operating the system when added to the pretax income requirement produce a total revenue requirement of $16,085.

The Company’s actual test year 1997 revenues were $13,312. The revenue requirement calculated by Staff is $2,773 greater than the revenues colloected during the test period and represents the gross revenue increase required.

The difference between the Company’s request for an increase of $3,817 and Staff’s recommended increase of $2,773 is attributable to the elimination of one set of water tests for which the Company has received and exemption and the elimination of a double count of depreciation expense. The Company’s books and records are correct. The error occured in the Company’s exhibits attached to the application.

Rate Design

OK George here is where you do your thing after reviewing what I did above. I’d appreciate any comments regarding errors and omissions you may have noticed.