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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION OF)
MORNING VIEW WATER COMPANY, INC.) CASE NO. MNV-W-06-1
FOR AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR WATER SERVICE IN)
THE STATE OF IDAHO.) COMMENTS OF THE
) COMMISSION STAFF
)
_____)**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Application and the Notice of Modified Procedure issued on March 15, 2007, submits the following comments.

BACKGROUND

On December 8, 2006, Morning View Water Company, Inc. filed a one-page rate case request seeking authority to increase its rates approximately 40%. The Company issued a notice to its customers with its March bills notifying them that it is seeking a 35% increase. If approved, a 35% increase would result in an increase in the monthly bills of customers with ¼ acre of \$7.70, customers with ½ acre of \$10.10, and customers with 1 acre of \$12.50.

To meet continued operation needs, the Company requests a revenue requirement increase of approximately 35%. The Commission approved a rate increase for the Company in 2002, and

implemented a surcharge of \$5.00 per month to fund a contingency reserve account (with the total amount in the reserve account capped at \$10,000). Order No. 29104.

STAFF ANALYSIS

Audit

Staff examined the books and records of the Company for the fiscal year ending December 31, 2006. Staff also reviewed the Staff's Comments and Attachments to the Company's Rate Case filed in 2002. Case No. MNV-W-02-1, hereafter referred to as the 2002 Rate Case. A field audit was conducted in April 2007 at the Company offices in Rigby, Idaho. The purpose of the audit was to obtain and verify the Company's revenues, expenses and rate base amounts for the calendar years 2005 and 2006. Financial information for previous years was not complete and therefore not reliable. Staff used the information obtained to determine if a rate increase for the Company was reasonable. The audit included (but not limited to) examination of the general ledger accounts and supporting invoices, employee payroll records, verification of physical plant and property, comments submitted by customers, and discussions with Company employees. The Company has one full time employee who does all of the accounting.

Revenues, Expenses and Rate Base

The Company did not file sufficient financial records to support its request for a rate increase. The Company provided financial information when Staff did its on-site audit. Staff found that the financial records for the years 2002, 2003 and 2004 were not complete or the Company was unable to retrieve adequate documentation. However, the financial records for 2005 and 2006 were substantially complete and the documentation supporting those financial records were readily retrievable. Therefore, Staff used the financial records for 2005 and 2006 as the basis for determining the Company's history of revenues, expenses and rate base.

Revenues

The Company receives revenues for the sale of water to residential customers. It also receives revenues from the customers at the rate of \$5.00 per month per customer as a surcharge. This surcharge will be discussed later in these comments. The Company received \$35, 422.60 in 2005 and \$36, 256.68 in 2006 from water charges. The Company currently charges flat monthly rates; therefore, without a change in rates or customer levels, the revenue will not change

significantly in the future. The Company has seen growth in its customers. It reported 56 customers in the 2002 Rate Case, and now it has between 97 to 100 customers.

Expenses

The Company provided financial information reflecting annual expenses for 2005 in the amount of \$36,823.96 and for 2006 in the amount of 37,772.23. Staff used the 2006 annual expenses as test year expenses and made appropriate adjustments. Attachment A sets forth the Company's expenses for 2005 and 2006 with Staff's adjustments and then the recommended annual expenses to be reflected in this rate case. Staff recommends that the annual expenses for the Company be set at \$38,498.

Adjustments to Annual Expenses

Based upon its review, Staff made the following adjustments to the Company's 2006 annual expenses to obtain the recommended annual expenses for the revenue requirement.

1. Staff continues to recommend the normalized annual water testing expenses for the Company be \$750.00 (line 1). Staff stated when making that recommendation in the 2002 Rate Case:

(T)he frequencies of specific water tests vary. Some tests are required monthly. Other have a frequency of quarterly, annually, semi annually, every 3 years, and every 6 years. This adjustment spreads the cost of each test over its required frequency. Over time, the average annual testing expense is \$750 for each water source.

The Commission accepted the \$750 and there is no reason to change this normalized expense level at this time.

2. The \$600 expenses in 2006 for Professional Fees were not an expense of the water company. The professional fees were incurred for Landco Building Company, an affiliate company owned by Mr. Gneiting. Therefore these expenses were removed from revenue requirement (line 4).
3. The Maintenance and Repairs account for 2006 included the purchase of a pump in the amount of \$3,200.65. This amount was removed from expenses (line 6) because the pump was purchased from the surcharge account and should not have been included in annual expenses. In addition, the pump has not been placed into service. While the pump will be properly included in plant in service when the facilities are

required, it will never be included in rate base to earn a return because the plant will be offset by the surcharge payment.

4. The Maintenance and Repairs account included an expense for \$400 that belonged to Landco Building Company. This amount was excluded from the recommended expense amount (line 7).
5. The Office Supplies account included the purchase of a computer for \$806.04. This purchase should be capitalized (see Attachment B, line 3) and has been removed from the 2006 Supplies Expense account (line 9 of Attachment A).
6. The Permits and Licenses account (line 11) included an expenditure in the amount of \$645 for permits that should have been paid by Landco Building Company. Although slightly more than the amount of the Company's 2006 expenditures of \$229.51, Staff finds \$250 of expenses to be reasonable.
7. The Insurance account (line 12) included a premium payment in the amount of \$500 for vehicles owned and operated by Landco Building Company. The balance of the insurance expenses of \$200 was recommended to be an appropriate Company expense.
8. The 2002 Rate Case included Company rent expense of \$950. The rent circumstances and expense of \$950 included in the 2002 revenue requirement has not changed, and therefore this amount is included in the recommended expenses.

The Company is not current in its obligation to pay the Internal Revenue Service for employee withholding and employer's contribution. This obligation is approximately \$3,933.88 for 2005 and \$3,417.75 for 2006. The Company's obligation for any future employer costs and obligations to the Internal Revenue Service for employee's withholding is reflected in the annual operating expenses Staff included in the revenue requirement recommendation. The recommended revenue requirement should provide sufficient funding to the Company to meet any future obligations for this expense. The debt incurred by the Company representing its obligations to the Internal Revenue Service are the responsibility of the Company, and no provision is included in the recommended rates to pay for the past obligation.

Rate Base

The Company's net rate base as determined in the 2002 Rate Case, Order No. 29104, was \$2,160.66 (\$2,626.95 plant less \$428.27 accumulated depreciation). This beginning point is shown on Attachment B, line 1. Since 2002, most capital expenditures have been paid for with funds from

the surcharge account and are not included in rate base. The only exceptions to use of the surcharge funds are an upgrade to an electrical panel in 2005 in the amount of \$1,269.00 (line 2) and the purchase of a new computer in 2006 for \$806.00 (line 3). The gross rate base for the Company is now \$4,701.95 (line 4) and Accumulated Depreciation is \$2,604.90 (line 8). The annual depreciation expense is now \$439.27 (Column F).

Capital Structure

The Company's capital structure is 100% common equity. The Company did not include a request for return on equity. Staff recommends 12% as a reasonable rate of return. The Commission in several recent small water cases has adopted a 12% rate of return. (Falls Water Company in Case No. FLS-W-05-1, Order No. 30027; Capitol Water Company in Case No. CAP-W-06-1, Order No. 30198; Spirit Lake East in Case No. SPL-W-06-1, Order No. 30279.)

Revenue Requirement

Staff's calculation of the proposed revenue requirement for the Company is shown on Attachment C, Column B. The Company's net rate base of \$2,097.05 (line 5) produces a return of \$251.65 (line 7) at the recommended rate of return of 12% (line 6). This return must be grossed-up to account for federal and state taxes that would need to be paid on this revenue. The net to gross multiplier is 127.3% (see Attachment B beginning on line 14). When the gross-up factor is applied to the return of \$251.65, the Company must earn revenue of \$320.40 (line 9). This amount added to the annual operating expenses of \$38,498 (line 10) and annual depreciation expense of \$439.27 (line 11), results in a Company total revenue requirement of \$39,257.70 (line 12). The Company received revenues of \$36,256.68 (line 13) in 2006; therefore the Staff recommended increase \$3,001.02 (line 14).

Contingency Reserve Account

The Company was authorized by the Commission in the 2002 Rate Case to charge each customer a surcharge of \$5.00 per month to fund a contingency reserve account. In Order No. 29104, the Commission stated the following finding concerning this contingency reserve account:

The reserve account will assure the Company's ability to provide more reliable service by providing a fund for extraordinary and unforeseen major repairs and replacements. It may also be used for payment of the Company's outstanding bill of \$4,213 for pump

replacement. The surcharge is to be separately identified on billing statements. The surcharge revenue is to be deposited into a separate account. A surcharge report is to be filed with the Company's annual report providing detail of all surcharge funds collected and disbursed. The detail provided should also include a description and justification for all monies disbursed. The surcharge is subject to annual adjustment and reauthorization. The surcharge is to cease when the reserve account balance reaches \$10,000 and may be reactivated with the Commission's approval when the account falls below \$5,000."

The Company has been collecting the surcharge since January 2003. The Company does separately identify the surcharge on the billing statement. It has not filed any report or accounting on the funds collected or disbursed, except as requested as part of this audit. Staff found that the Company did maintain good records of the contingency fund account, and was able to audit the funds collected and disbursed. Since January 2003, the Company has collected and deposited \$15,735 and the account has earned \$10.02 in interest through May 31, 2007. The Company has spent \$14,646.50, leaving a balance of \$1,098.52 in the account as of May 31, 2007. The proceeds from the account were disbursed for the following purposes:

Capital Expenditures			
5/20/2003 Pump purchase	\$	1,357.10	
9/2/2003 Pulling pump from casing	\$	520.00	
1/19/2005 Soft start of pumps	\$	2,000.00	
7/12/2005 30 hp pump motor	\$	3,200.65	
6/13/2006 Pump end for 30 hp pump	\$	1,905.13	
	\$	8,982.88	\$ 8,982.88
Loan Payments (See note below)			
31 payments of \$145.00	\$	4,495.00	
1 payment of \$157.50	\$	157.50	
1 payment of \$971.12	\$	971.12	
	\$	5,623.62	\$ 5,623.62
Service Charges			
8 service charges @ \$5.00 ea.	\$	40.00	\$ 40.00
Total			<u>\$ 14,646.50</u>

- The Commission in the 2002 Rate Case approved the Company's payment of an outstanding obligation in the amount of \$4,213 for pump replacement. The Company borrowed the money from Wells Fargo Bank and paid the obligation in full. The Company then used the Contingency Account as the source of funds to repay the loan.

It appears from the Company's records and bank statements that the surcharge collected was regularly deposited in the Company's bank account and then once a month a check from the Company account was deposited in the contingency fund's separate account. This occurred through

May 2006. Since May 2006, the Company has not deposited any of the surcharges collected even though it continued to collect the \$5.00 per month per customer through this same period.

Staff noted that when the Company was depositing the surcharge in the contingency fund account that the amount deposited monthly by the Company represents the surcharge collected from 83 to 91 customers. The Company now reports that it has 97 to 100 customers.

The Company has not deposited the surcharge amounts collected from June 2006 through May 2007. If the Company had an average of 97 customers that amount is \$5,335 (97 customers x \$5 x 11 months).

Water Supply/Metering

Water supply is a pressing issue for the Company, a problem that can be addressed in part by metering. Metering would allow the Company and its customers to manage their water usage more effectively. It would help pressure and supply problems and address related customer issues.

The Company was directed in Order No. 29104 to "prepare a plan for transitioning to metering (including time and estimated costs) and present it to the Commission for approval." This has not happened.

It is Staff's understanding that meters have been offered to the Company at no cost from Idaho Rural Water Association and this offer is still open. The Company has also indicated that all but 12 of the lots have meter boxes in place. It would seem that installation of the meters could be accomplished without great expense and the Company should proceed as previously directed by the Commission to prepare a plan for metering the system. The Company should obtain bids for the installation of meters for all their existing customers, estimate the cost for the complete installation and the increased cost for meter reading. The total cost with an implementation schedule should then be provided to the Commission for review. Staff would propose that the surcharge be increased to cover the estimated reasonable meter installation cost. Meter rates could be set at that time, based on the prior 12 months' water consumption, and implemented following meter installation.

Completion of the back up well is also a priority that will address water supply and related customer concerns. It would provide a back up supply, improving reliability and pressure. This should be completed as soon as possible.

Rate Design

In the absence of meters, Staff continues to support rates based on lot size. The Staff-proposed revenue requirement of \$39,257.70 represents an 8.277% increase over current rates. Staff is therefore proposing an increase of 8.277% to the existing rates resulting in the following monthly rates:

¼ acre lot	\$23.82
½ acre lot	\$31.24
1 acre lot	\$38.65

CONSUMER ISSUES

The Company filed an Application for approval of the increase in rates on December 8, 2006. A notice to Morning View Water Company's customers was filed February 27, 2007 with the Commission. Customers received notice with their March billing statements in compliance with the Utility Customer information rules (IDAPA 31.21.02102).

Since 2003, the Commission has received 28 complaints regarding Company water service quality. In addition, Company provided records reflect 133 complaints regarding the loss of water and low water pressure during the 2006 calendar year. Moreover, as part of this case the Commission has received 9 written comments regarding Company activities and service quality. Finally, on April 12, 2007 a consumer workshop took place in the conference room in the Rigby city library. Seventeen people attended the workshop including the owner, Company secretary and a representative from the Idaho Rural Water Association.

The common complaints provided through customer input included water quality, extended water service outages and failure of the Company to notify customers of planned outages or provide timely explanation of repair time for unexplained outages. In addition, customers expressed concerns about water pressure, particularly during the summer. The problem is exacerbated given a homeowner covenant that requires customers to maintain large lawns and as new homes are connected to the system. Finally, customers expressed concern about the Company's use of the monthly surcharge account to make system improvements when no meters, shut off valves or back up water supplies are available to limit the number and duration of system outages.

Staff's recommendations to better utilize the surcharge revenues by installing individual customer meters will address many of the concerns expressed by customers. System outages should decline, pressure should increase and both water volumes and quality should improve. The Company should also be able to complete additional source of supply with surcharge revenue even

with installation of the meters given the relatively low cost of metering. While outages should decline with metering and additional source of supply, the Company should provide customers advance notice when outages are planned. The Company should also implement a method for advising customers about the cause and expected time when repairs will be completed. One alternative method the Company could use is leaving a message on its answering machine.

CONCLUSIONS AND RECOMMENDATIONS

It is recommended that the Company deposit monthly in the Contingency Reserve Account all the surcharges collected from its customers. Additionally, Staff recommends that at the time of the next audit, Staff will verify that the \$5,335 of surcharge collected by the Company but not deposited will be reflected in the Contingency Funds Account and available for capital improvements and repairs.

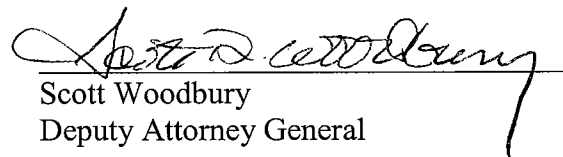
It is recommended that an annual revenue requirement of \$39,258 be approved. This represents a \$3,001 increase over the Company's 2006 revenue.

Staff recommends that the monthly rates be increased by 8.27%.

Staff recommends that the Company be directed to complete the back up well as soon as possible and to present to the Commission a plan for the installation of meters for all their existing customers within 60 days of this Order.

Staff recommends the Company provide advance notice of planned outages and implement a system for advising customers about the status of repairs following unplanned outages.

Respectfully submitted this 13th day of June 2007.


Scott Woodbury
Deputy Attorney General

Technical Staff: Joe Leckie
Dave Schunke
Beverly Barker

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Morning View Water Company

MNV-W-06-01 Rate Case

Schedule of Expenses 2005, 2006

Expense	2005	2006	Adj. #	Staff Adjustments Amount	Recommended Annual Expenses	Staff explanation of Expense
1 Water Testing	\$ 220.00	\$ 295.00	1	\$ 750.00	\$ 750.00	Normalized Cost for testing
2 Payroll (Gross Payroll)	\$ 14,424.15	\$ 19,947.88			\$ 19,950.00	2006 expense a reasonable amount
3 Employer Payroll Contribution	\$ 799.74	\$ 1,077.25			\$ 1,100.00	2006 expense a reasonable amount
4 Professional Fees	\$ 2,657.15	\$ 2,436.33	2	\$ (600.00)	\$ 1,836.00	2006 expense reduced by Staff adjustment
5 Telephone	\$ 1,323.91	\$ 1,057.96			\$ 1,060.00	2006 expense a reasonable amount
6 Maintenance and Repairs	\$ 6,229.74	\$ 1,703.30	3	\$ (3,200.65)	\$ 2,250.00	Repairs and maintenance will need to increase in the future.
7			4	\$ (400.00)		
8 Electric Bills	\$ 7,790.29	\$ 6,467.65			\$ 7,500.00	Electric Bills for 2005 are more representative of actual costs going forward.
9 Office Supplies	\$ 1,804.34	\$ 2,931.87	5	\$ (806.04)	\$ 2,127.00	2006 expense a reasonable amount with Staff adjustment 4
10 Service Charges	\$ 90.00	\$ 83.16			\$ 100.00	2006 expense a reasonable amount
11 License and Permits	\$ 1,022.87	\$ 874.51	6	\$ (645.00)	\$ 250.00	2006 expense a reasonable amount
12 Insurance	\$ 114.82	\$ 722.32	7	\$ (500.00)	\$ 200.00	2006 expense a reasonable amount with Staff adjustment 5
13 Property Tax	\$ 246.95	\$ -			\$ 250.00	2005 represents costs; taxes not paid in 2006 but due.
14 Miscellaneous	\$ 100.00	\$ 175.00			\$ 175.00	2006 expense a reasonable amount
15 Office Rent			8	\$ 950.00	\$ 950.00	Authorized by 2002 rate case
16 Totals	\$ 36,823.96	\$ 37,772.23			\$ 38,498.00	

Explanation of Staff Adjustments

- 1 This amount was recommended as the normalized annual amount for water testing in the 2002 rate case.
- 2 2006 Professional Fees account included a \$600 expense for Landco Building Company; an affiliate company owned by Mr. Gneiting.
- 3 2005 Repairs and Maintenance account included a capital purchase of a well pump. Pump was purchased with funds from the surcharge account.
- 4 2006 Repairs and Maintenance account included a \$400.00 expense for Landco Building Company, an affiliate owned by Mr. Gneiting.
- 5 2006 Office Supplies Account included the purchase of a Dell Computer. Cost of Computer is removed and capitalized.
- 6 Permits and licenses include permits obtained by and for Landco Building Company, an affiliate company owned by Mr. Gneiting
- 7 2006 Insurance Account included the premium payment of \$500.00 for vehicles. The water company does not own any vehicles. The vehicles covered by the insurance policy were owned by Landco Building Company, and affiliate company owned by Mr. Gneiting.
- 8 This amount was recommended as the reasonable annual amount for rent of the Company's office space in the 2002 rate case.

ATTACHMENT A
CASE NO. MNV-W-06-1
STAFF COMMENTS
6/13/07

Morning View Water Company

MNV-W-06-01 Rate Case

Schedule of Rate Base with Revenue Requirement

A	B	C	D	E	F
		Life	Annual Depreciation Expense	Depreciation Expense expired	Annual Depreciaton Expense
Rate Base					
1 As of 12/31/05	\$ 2,626.95		\$ 428.27	\$ 404.00	\$ 24.27
2 Additions in 2005	\$ 1,269.00	5	\$ 253.80		\$ 253.80
3 Additions in 2006	\$ 806.00	5	\$ 161.20		\$ 161.20
4 Total Rate Base 12/31/06	\$ 4,701.95		\$ 843.27	\$ 404.00	\$ 439.27
Accumulated Depreciation					
5 As of 12/31/05	\$ 2,165.63				
6 Depreciation Expense 2006	\$ 439.27				
7 Acc. Dep as of 12/31/06	\$ 2,604.90				
Return on Rate Base					
8 Net Rate Base 12/31/06	\$ 2,097.05				
9 Rate of Return	12%				
10 Return	\$ 251.65				
11 Tax Gross-up	127.3%				
12 Gross up on Return	\$ 320.40				
Gross Up Multiplier:					
13 Beginning	100.0000%				
14 State Tax @ 7.6%	7.6000%				
15 Federal Taxable	92.4000%				
16 Federal Tax @ 15%	13.8600%				
17 Net After Tax	78.5400%				
18 Net to Gross Multiplier	127.3237%				

Attachment B

ATTACHMENT B
CASE NO. MNV-W-06-1
STAFF COMMENTS
6/13/07

Morning View Water Company

MNV-W-06-01 Rate Case

Revenue Requirement Calculation and Comparison to 2002 Rate Case

	A	B
1	MNV-W-02-1	MNV-W-06-01
2 Number of Customers	56	83
3 Rate Base	\$ 2,626.95	\$ 4,701.95
4 Accumulated Depreciation	\$ (466.29)	\$ (2,604.90)
5 Net Rate Base	\$ 2,160.66	\$ 2,097.05
6 Rate of Return	12%	12%
7 Return	\$ 259.28	\$ 251.65
8 Gross-up for taxes	1.27	1.27
9 Grossed-up Return on Rate Base	\$ 331.88	\$ 320.40
10 Annual Operating Expenses	\$ 20,452.24	\$ 38,498.03
11 Depreciation Expense	\$ 428.27	\$ 439.27
12 Total Revenue Requirement	\$ 21,212.39	\$ 39,257.70
13 Revenue Received in 2006		\$ 36,256.68
14 Revenue Deficit		\$ 3,001.02

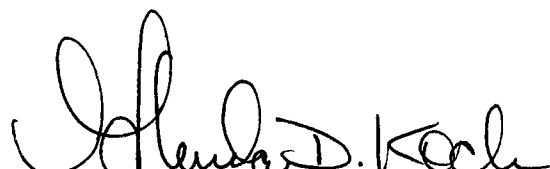
Attachment C

ATTACHMENT C
CASE NO. MNV-W-06-1
STAFF COMMENTS
6/13/07

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 13TH DAY OF JUNE 2007,
SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN
CASE NO. MNV-W-06-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID,
TO THE FOLLOWING:

NOLAN W GNEITING
MORNING VIEW WATER CO INC
PO BOX 598
RIGBY ID 83442
FAXED 6/13/07 208-745-0041



Andrew D. Koch
SECRETARY