Office of the Secretary
Service Date
November 2, 2010

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF MURRAY WATER WORKS SYSTEMS FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER SERVICE	)))))	**CASE NO. MUR-W-10-01** **ORDER NO. 32105**

On January 13, 2010, Murray Water Works Systems ("Murray" or "Company") filed an Application requesting authority from the Commission to substantially increase its rates and charges for water service. Murray serves about 36 customers in Murray, Idaho. In its Application, Murray did not seek a specific effective date for the proposed increase in rates and charges.

On February 25, 2010, the Commission issued a Notice of Application and Notice of Modified Procedure establishing a 60-day comment period. On April 13, 2010, Staff conducted a public workshop in Murray regarding the Company's filing. Subsequently, the Commission extended the comment period until June 15, 2010. *See* Order No. 31065.

On June 15, 2010, Staff submitted written comments regarding Murray's Application. The Commission also received six separate comments from Murray's residential and business customers. On August 12, 2010, the Commission held a telephonic hearing at the Commission's office in Boise, during which the Commission heard the testimony of one Murray customer.

The Commission has reviewed and considered all of the filings submitted in the instant case, including the comments and recommendations submitted by Murray, Commission Staff and Murray's customers. Additionally, we have carefully reviewed prior Orders issued by the Commission pertaining to the Company's operations. Accordingly, we authorize an increase in rates as set out in greater detail below to become effective within 14 days of the service date of this Order.

THE APPLICATION

Murray Water's last rate case was in 1994. Order No. 25771. The Company now claims that a general increase in rates and charges is needed in order to invest in machinery and maintain its system. Murray's Application states that certain capital improvements (e.g., new water meters) are needed in order to isolate water leakage and control summer water usage.

Murray estimated that it has invested approximately $15,000 and 360 hours of labor installing a new water main through the town of Murray.

Murray currently serves 31 full-time and part-time residential customers and 5 full-time and part-time commercial customers. The proposed rates represent an increase of 54% for residential customers and an increase of 131% for commercial customers with a 1-inch service line and 188% for commercial customers with a 2-inch service line. Murray's Application included, as attachments, a copy of the Company's 2008 Annual Report information and copies of water bills from other water companies operating in the nearby area, including the East Shoshone Water District. Murray's current hookup fee was adjusted in June 2003. *See* Order No. 29294.

The Application <u>did not</u> include an effective date for the proposed increase in rates and charges. The Company proposed the following requests regarding rate design and structure:

1. Schedule 1 and Schedule 3 – Rates for residential water use to be increased from $26 per month to $40 per month. Rates for commercial customers to be increased from $26 per month for all commercial customers to $60 per month for a 1-inch service line and to $75 per month for a 2-inch service line. The Company is also asking for an increase in hookup fees from $800 to $2,000 plus parts and labor; and a new monthly charge of $5.00 for inactive customers.

2. Schedule 2 – An increase in the turn on/turn off fee for March 1 to October 1 from $25 to $50, and an increase in the turn on/turn off fee for October 1 to March 1 from $50 to $75.

With this background, we turn to the issues in this case.

REVENUE REQUIREMENT

A. Test Year

Murray requested a rate increase in its Application, but failed to provide any schedules showing the revenue increase necessary to support the requested rates. Thus, Staff reviewed and parsed the Company's financial information through an onsite audit. As part of its analysis, Staff utilized the 2009 calendar year as the relevant "test year." Staff noted that a review of the Company's 2009 bank statements revealed that the Company received revenues totaling $10,252 for the year.

Commission Findings:

We find it is reasonable to use a calendar test year ending December 31, 2009.

Staff asserted that an annual increase in revenue is warranted. Staff calculated that the Company should receive an annual increase of $9,515. Thus, when combined with the Company's current revenues of $10,252, the total annual revenue requirement recommended by Staff was $19,767. The revenue increase is attributable to additional plant in service added to the Company's rate base since 2002, as well as an increase in operating expenses needed to operate Murray's water system in an efficient manner.

B. Rate Base

Murray's rate base was last fixed by the Commission in 2002 (Case No. MUR-W-02-01) as part of the ownership transfer to the Company's current owner, Arlen Lish. *See* Order No. 29119. As part of that transfer, the Commission adopted Staff's recommendation that rate base be set in the amount of $10,000 and that the annual depreciation on this rate base amount accrue at the annual rate of $400. *See* Order No. 29119; Staff Atch. 1.

Staff's current investigation of Murray's financial records revealed that, since 2002, Murray has made three significant capital investments to the water systems plant: (1) improvements to its well and pump in 2005; (2) capitalized expenses for locating and repairing leaks in the water system in 2009; and (3) the addition of approximately 1,400 feet of water main in 2002. The cost for these additions totaled $36,236. *See* Staff Comments, Atch. 1.

1. <u>Well, Pump and Leak Improvements</u>. The Company's financial records demonstrate that expenditures for well and pump improvements in 2005 totaled $3,670. The Company's financial records show that the expenditures for the leak detection and repair in 2009 were $6,380. Staff agrees with these amounts.

In its tax filings, the Company used a useful life of 10 years for depreciation purposes. Staff agreed that 10 years is a reasonable estimation of the capital improvements' useful life for depreciation purposes, and used 10 years as the useful life of these additions for determining an annual depreciation expense. Therefore, Staff supported an annual depreciation expense of $367 for the well and pump improvements, and $638 for the leak detection and repairs.

2. <u>Main Line Additions</u>. The Company recorded the amount of $58,589 as the cost of the main line addition in its tax (IRS) schedules. Nonetheless, Staff was unable to confirm that amount as the actual cost of the improvements because the Company was unable to provide actual invoices supporting this amount. However, the Company did eventually provide a

document representing a list of materials it used for completion of the project. Mr. Lish used contemporary prices from Consolidated Supply Co. ("CDA") to determine that the 2010 cost of the materials was approximately $18,564. Mr. Lish also provided a schedule detailing his estimate of the labor and equipment costs, $32,141, required to complete the project. Thus, the total cost associated with the main line addition and submitted by Murray for recovery through rates is $50,705.

Staff's investigation revealed that the labor and equipment for the installation of the main line addition was performed by an excavation company owned by Mr. Lish. His excavation company did not bill Murray for its work on the project. No other relevant documentation was provided to support the Company's cost of constructing the main line addition.

In attempting to verify the Company's cost estimate for the water system improvement, Staff accessed the excavation company's invoices from Familian Northwestern of Coeur d'Alene (FNW), a pumping and pipe-supply company that was the main supplier of material to the project. Staff reviewed all of the invoices provided and found invoices showing that materials likely used to construct the main line addition were delivered to Murray in the fall of 2002. Mr. Lish indicated that his only excavation job in Murray during that time period was the main line addition. Thus, Staff concluded that the FNW invoices, dated during the time of the main line construction and showing delivery to Murray, accurately reflect some if not all of the cost of material used on the main line job and should therefore be included in the cost of the addition. The aggregate total for these invoices is $5,372.

Additionally, Staff reviewed Murray's schedule detailing the labor and equipment used to construct the main line project. Staff contacted an independent excavation contractor to compare the time and rate used by the Company. Staff determined that, based upon the project and the information in the Company's schedule of labor and equipment, a reasonable and prudent amount for labor and equipment services is $20,814.

Accordingly, Staff reasoned that a recovery in the amount of $26,186 ($5,372 + 20,814) for construction of the main line addition would be reasonable and prudent and recommended that this amount be included in rate base. Staff calculated a useful life of 40 years as a reasonable life for the main line addition. Therefore, the annual depreciation expense for the main line addition equals $655.

Taking the three items together (main line, well/pump, and leaks), Staff's recommendations result in a total plant in service amount of $46,236 and an annual depreciation expense of $2,060. The accumulated depreciation on plant in service has reached $10,256 for a rate base total of $35,980. All of these calculations are set forth in Attachment 1 of Staff's Comments.

Commission Findings:

Based upon our review of the record and Staff's comments, we find that the Company's current plant in service totals $46,236. Subtracting the accumulated depreciation ($10,256) from this amount results in a total rate base of $35,980. We find that Staff's calculations are reasonable and supported by the evidence. We further note that the Company did not challenge these calculations.

C. Return on Rate Base

Staff recommended that Murray receive a 12% return on its rate base. A 12% return on $35,980 of rate base results in annual revenue increase of $4,318. Because this amount is subject to taxes on both a federal and state level, it must be increased by a gross-multiplier, in this case 128.09%, in order to ensure that the Company actually attains $4,318 in additional revenue. *See* Staff Atch. 4. After the gross-up factor is applied, the amount of additional revenue for return on equity that must be collected in new rates is $5,530. *Id.*

Commission Findings:

The Commission has allowed a 12% rate of return on equity in several contemporary cases pertaining to requests for rate increases from small water companies. See Order Nos. 30970, 30342, 30198, and 30279. Based upon the record in this case, the Commission finds that it is just and reasonable to approve the customary 12% rate of return for Murray.

OPERATING REVENUES AND EXPENSES

In its Application, Murray included a document entitled "Water Distribution Industry Operator Statement" ("Statement"). The document presumably contains financial information relating to the Company's 2009 operating expenses. Staff attempted to reconcile the numbers provided in the Statement to the financial information received from the Company during its onsite audit, but Staff was unable to reconcile the Statement numbers with the Company's 2009 bank statements, checks, deposits, and tax return. Therefore, in order to more accurately estimate the Company's annual operating costs, Staff utilized the financial information derived from Murray's tax filings.

A. Revenues

Based upon Murray's financial records, Staff calculated that Murray's revenues during the 2009 test year were $10,252. Staff Atch. 4, line 15.

B. Expenses

Staff identified actual operating expenses of $7,260 in 2009. Staff Comments, Atch. 2, line 2. Staff added additional expenses that it believes are necessary for the stable and adequate operation of the water system. *Id.* at Col. B. Staff's recommendation for each category of operating expense was shown in Attachment 2 to its comments and is more fully described below:

1. Labor – Operation & Maintenance. In 2009, Murray paid $4,800 ($400 per month) to Mr. Lish for his time and efforts spent in operating and managing the Company. Staff concurred with the Company's request and agreed that the proposed level of compensation is reasonable for a water company with a similar number of customers.

2. Labor – Administrative & General. Murray did not record or request recovery for expenses associated with the costs of bookkeeping, customer bill preparation and collections. Staff and several Murray customers have confirmed that the Company does not currently send out monthly customer billings. The Commission is aware of several complaints regarding this practice.

Staff recommended that the Company send out a monthly billing. Consequently, Staff included the annual amount of $3,000 or $250 per month for the cost of bookkeeping, preparing monthly customer billings and accounting for receipts. If the Commission adopts rates that are other than monthly rates, then this amount would need to be adjusted to reflect the number of times billings would be sent to the customers.

3. Purchased Power. This account represents the annual cost of power to operate the pump and system. In 2009, Murray spent $1,180 to purchase power.

4. Materials & Supplies – Operation & Maintenance. In this account, Murray listed $358 representing Company expenditures incurred in 2009 for the purchase of materials and supplies to maintain the water system. Staff made a $142 pro forma increase in order to reflect additional minor repairs that Staff believed should be made to the system. Staff based its

suggested increase on the current condition of the system. According to Staff, the water system is currently in need of minor repairs for system leaks, valve replacements and pump maintenance.

5. Material & Supplies – Administration & General. In 2009, Murray spent approximately $154 for office expenses, copies, mailings, phone and the other incidental expenses associated with the operation of a business office. Again, Staff suggested a pro forma increase of $96 to bring the total amount to $250 annually, approximately $20 per month. Staff believes that the increase is reasonable and necessary in order to subsidize the costs related to the implementation of a monthly billing system.

6. Contract Services – Professional. In 2009, Murray recorded $240 for accounting services in the preparation of the Company's tax filings. Staff increased this amount by $60 to $300 for the future cost of the tax preparation services. Staff's recommendation is based upon conversations with the Company's accountant regarding the estimated future cost of these accounting services.

7. Contract Services – Water Testing. Pursuant to IDEQ requirements, Murray is mandated to test the purity of the water in accordance with a nine-year testing cycle. Staff noted that because some tests are not required every year, but are required in the nine-year cycle, the cost for testing must be normalized in order to reflect the annual cost of compliance with the nine-year testing requirement. Staff calculated an annual cost of water testing of $650.

8. Rentals – Property & Equipment. In 2009, Murray did not record any actual costs associated with the rental of property or equipment. However, Staff does not believe that it is in the best interest of the customers to neglect normal and reasonable repairs of the water system. Therefore, Staff included $500 for the rental of equipment (backhoes, trucks, compressors, and generators) necessary to maintain and repair the water system.

9. Transportation Expense. In 2009, Murray recorded $302 for the cost of gasoline to commute to and from Mr. Lish's residence to the water system. Mr. Lish lives approximately 40 miles from the water system. Staff increased this amount to $400 annually. Staff justified this increase upon Mr. Lish's assurance that he would make more trips to the water system during the coming year.

10. Insurance. The estimated annual premium for liability insurance on the well lot property is $150. Staff believes liability insurance should be obtained by the Company and has included the premium expense in its calculation of expenses.

The following table summarizes the Staff's positions.

Operating Expenses	$11,850
Depreciation Expenses	2,060
Regulatory Fee	50
Property Taxes	95
DEQ Fees	175
Total Expenses	14,230
Total Revenue	-10,252
Operating Loss	(3,978)

Commission Findings:

It is a fundamental axiom of utility law that Murray is "entitled to rates that will cover its operating costs and provide an opportunity to earn a reasonable rate of return on its investment. . . ." *See* Order No. 30970. The Commission finds that the expenses put forth by the Company, as well as the uncontested adjustments made by Staff, are reasonable and necessary in order to support the adequate operation and maintenance of Murray's water system.

Specifically, the Commission finds that it is reasonable and necessary to include the cost to retain a certified system operator to oversee Murray's water system. As Staff mentioned, the Idaho Department of Environmental Quality ("IDEQ") requires each water system to employ a certified system operator to maintain the water system. The amount suggested by Staff, $4,800 per year or $400 per month, is a reasonable amount for compensation for such services. If Mr. Lish is unwilling or otherwise unable to become a certified system operator then the Commission orders the Company to seek out and employ another individual to comply with IDEQ's certification requirement and fulfill the duties and responsibilities of a certified system operator.

The Commission further finds it is reasonable to require Murray to develop and implement a monthly billing system. The costs associated with this normal business practice should be incorporated into rates. The Commission finds that $3,000 per year is a sufficient amount and shall be included as an expense for the development and maintenance of a monthly customer billing system. The Commission also finds that $1,180 for the purchase of electrical power to operate the water system is a reasonable amount.

Finally, the Commission finds that the remaining expenses and pro forma increases proposed by Staff are prudent and shall be included for recovery through the Company's rates. The aforementioned costs for materials, supplies, contract services, transportation, and insurance represent completely foreseeable expenses or events occurring as part of the normal operation of any water system. The increases above what the Company actually experienced in 2009 are minimal and reflect typical increases necessary to perpetuate the continued viability of Murray's water system.

COMMISSION REVENUE REQUIREMENT

Combining the rate base findings with the operating revenues and expenses findings results in the following revenue requirement:

Rate Base	$35,980
Rate of Return	12%
	$ 4,318
Operating Income	$ 3,978
Rate Base Deficiency	($ 340)
Operating Loss (plus fee)	($3,985)
Tax Gross-Up ($4,318 at 128.09%)	$ 5,530
Revenue Increase	$ 9,515
Test Year Revenue	$10,252
ANNUAL REVENUE REQUIREMENT	$19,767

The Commission finds that an annual revenue requirement of $19,767 is reasonable and prudent. *See* Exh. 1. The increase in Murray's annual revenue requirement represents an amount sufficient to allow the Company to recover the significant capital investments it has made since its last rate case. The Commission finds further that, since 2002, a large portion of the costs borne by the Company are related to capital improvements made to Murray's water system and have contributed to the necessary operation of the water system. For example, projects such as the completion of the main line extension project and basic leakage repairs constitute vital and necessary costs associated with the operation of any water system. These improvements provide a significant benefit to Murray's customers and shall be recovered through rates.

RATE DESIGN

According to the Company, Murray has a total of 39 customers (34 residential and 5 commercial customers). *See* Murray's Response to Staff Production Request No. 1. Of

Murray's 34 residential customers, 24 are full-time and 7 are part-time. The remaining three customers are currently disconnected from the water system. Thus, only 31 are active residential customers. Of the five commercial customers, three are full-time and two are part-time.

A. Monthly Water Rates

As stated above, Murray currently charges a flat rate of $26 per month to all its residential and commercial customers. In its Revised Application, Murray proposed a different rate for residential customers with a 1-inch service line. Murray Schedule No. 1 – Flat Rate. Murray has proposed the following changes to its rate design:[1]

> **Schedule No. 1** – Rates for residential water use to be increased from $26 per month to $40 per month.
>
> **Schedule No. 2** – Rates for commercial customers to be increased from $26 per month to:
>
> (a) $60 per month for a 1-inch service line, and
> (b) $75 per month for a 2-inch service line.
>
> **Schedule No. 3** – Fee for one household if a trailer or cabin on same hookup to be increased from $26 per month to $40 per month.

The Company also proposes to charge customers who are not using water $5.00 per month to help maintain the system.

Murray justified its proposed increase by citing rates charged by other water utilities, East Shoshone Water District and Central Shoshone Water District, operating within close proximity of Murray's service area. The Company claims that these water districts charge $45 for a 3/4-inch service line. Staff remarked in its comments that Mr. Lish has two rental homes in the neighboring areas served by the aforementioned water utilities. Mr. Lish cited his personal bill of $42.50 for November 2009 water usage to East Shoshone Water District (Wallace) and $45.68 for December 2009 water usage to Central Shoshone County Water District (Kellogg). Mr. Lish submitted copies of invoices to support his claims.

The total number of Murray customers used by Staff in calculating expected revenues was 34 (31 residential, 3 commercial). *See* Staff Comments, Atch. 6. Although Staff supported

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[1] In Murray's initial Application, the Company proposed a flat rate design for residential customers (i.e., no differentiation of service line sizes) and a service line size-based rate design for commercial customers.

many of Murray's rate design proposals, it also made several recommendations which differed from the design included in the Company's Application, including:

1. Design a rate structure based upon service line sizes;

2. Do not separately bill the owners of the community park;

3. Do not bill the private owners of the County Courthouse building until they request water service at that location;

4. Define a "Full-Time Customer" as any water system user receiving continuous water service by Murray Water Works for more than eight (8) months during the year;

5. Define a "Part-Time Customer" as any water system user receiving water service by Murray Water Works for eight (8) months or less during the year;

6. Spread the $19,767 recommended annual revenue requirement to all water users based on the class of customers and the size of service line;

7. In order to simplify the tariff design, minimize confusion, provide ease of implementation, and for the reasons mentioned above, all seasonal or part-time users with the same size of service lines will be charged for 2/3 the rate of full-time users;

8. Group customers with 3/4 and 1-inch service lines into the same class/category and that the equivalent meter size/pipe size ratios published by the American Water Works Association's Manual of Water Supply Practice as presented in Attachment 5 be used to establish rates for customers with larger services. The 2-inch service size results in a ratio that is approximately two times the ratio for 1-inch service;

9. Maintain Schedule 3 requirement of an additional fee for a household with a trailer or cabin connected to the same hookup; Staff does not oppose maintaining the Company's Schedule 3 because there may be a separate household with a trailer or cabin taking water from another customer's service line. It would not be fair to the other customers of Murray if such households take water free of charge.

Commission Findings:

Having determined the Company's revenue requirement, the Commission's task is to ensure an equitable recovery of the utility's fixed costs among its various customer classes.

Generally speaking, providing service to customers with larger service lines is more costly. In this case, nearly all of Murray's customers receive water service through a 3/4-inch service line.[2]

The current monthly rate of $26 per customer was established by the Commission 16 years ago. *See* Commission Order No. 25771. Designing a reasonable rate structure for Murray is complicated by the presence of seasonal users on the Murray water system. Nevertheless, the Commission has analyzed and resolved this issue in other cases. In Case No. GNR-W-01-0l, the Commission stated

> [T]he vast majority of Ponderosa's expenses are fixed; these costs are incurred regardless of how many customers actually take water from the system at any given time. To ensure that a working system is available when part-time and active service customers visit their lots, the Commission thus finds it reasonable to require seasonal customers to financially maintain the system for a significant portion of the year.

Order No. 29172 at 2.

In the above Order, the Commission defined "Resident" customers as full-time water system users who live year-round on the property serviced by the water utility, and "Non-Resident" customers as all other property owners who do not live year-round on the property serviced by the utility. The Non-Resident customer class includes customers who could be served by the system, even if they are not physically connected to the water system. In an Order following up on the water utility's failure to comply with some of the instructions included in the above Order, the Commission stated:

> [A]ll property owners benefit from the water system, whether or not they are connected and taking service for the entire year. The water infrastructure is in place for the benefit of all properties and adds to the current and resale value of the properties. . . .
>
> The Commission further finds this rate structure to be appropriate for the . . . system because it acknowledges that all customers benefit from the system's existence, even if absent customers do not take advantage of this service. Full-time customers will continue to pay the larger fee that reflects the variable expenses that they contribute to. Given that the usage . . . is similar to the speculative and seasonal usage associated with "resort systems," we believe that year-round payment is the only way to provide the Company with steady cash flow it needs to keep the system operating smoothly under the present circumstances.

[2] The Company documented only one residential customer with a 1-inch line.

Order No. 29276 at 7.

The Commission finds that the rate design issues in this case concerning full-time and part-time or seasonal users of water are analogous to the issues presented in GNR-W-01-01. The Commission finds that a similar approach is reasonable in this case and shall be applied in addressing full-time and part-time water users on the Murray water system.

After reviewing Murray's proposal and Staff's recommended rate design, the Commission finds that Murray's customer base shall be apportioned into two customer classes:

> **Full-Time Customer** – Water system users with continuous water service by Murray Water Works for more than eight (8) months during the year.
> Monthly Rate: $51.50
>
> **Part-Time Customer** – Water system users with water service by Murray Water Works for eight (8) months or less during the year.
> Monthly Rate: $34.25

The Commission selects eight months as the cut-off because it is the longest period of time that current part-time customers maintain continuous water service. The inescapable reality is that a large percentage of the overall cost of maintaining any water system is comprised of non-usage related expenditures, i.e., fixed costs. These fixed costs persist regardless of whether a specific customer is currently connected to the system. Thus, part-time users must share in the cost of running the system lest full-time customers be required to unfairly subsidize their continued presence on the water system. Because the system is unmetered, the $19,767 annual revenue requirement must be spread to all water users based on the class of customers and the size of service line.

Currently, Murray's part-time customers disconnect and reconnect their water service without paying any seasonal disconnect or reconnection charges. The Company does not charge turn on/turn off fees when the customers disconnect themselves, although the current Company tariff allows the Company to do so. *See* Murray Water Works System Tariff, Schedule No.2. The net result is that part-time customers on the Murray water system pay only for the number of months they are actively diverting water from the system.

In order to more fully capture the costs associated with part-time usage of the water system, simplify the tariff design, minimize confusion and provide ease of implementation, the Commission finds that part-time customers on the Murray water system shall pay an annual charge equal to eight months of usage. These seasonal or part-time users will be charged for eight months of service or the equivalent two-thirds the rate of full-time customers. *See* Exh. 1. In order to simplify the tariff design even further, customers with 3/4 and 1-inch service lines shall be grouped into the same class or category and the equivalent meter size/pipe size ratios published by the American Water Works Association's Manual of Water Supply Practice as presented in Exhibit 2 will be used to establish rates for customers with larger services. The 2-inch service size results in a ratio that is slightly more than two times the ratio for 1-inch service. Utilizing the aforementioned rate design proposal, the various expected revenues are calculated for the various customer classes and presented in Exhibit 1. The rate shall be $34.25 per month for part-time customers; $51.50 per month for full-time customers; and $70.00 per month for commercial customers.

The aforementioned findings render Murray's proposal of charging a minimum of $5.00 per month minimum fee inapplicable. Service disconnection for non-payment or for other reasons will continue to be governed by the Company's Rules and Regulations approved by the Commission.

B. The Park Billing

In its Application, Murray requested that the community park ("Park") be billed as another commercial customer.

Commission Findings:

The Commission finds that water service provided to the small community park during the summer months should not be billed separately. Historically, the Park's owner of record has not been billed separately. Several of Murray's customers expressed their opinion at the public workshop conducted on April 13, 2010, that it was not appropriate to bill the Park as a customer. They supported spreading the cost of supplying water to the Park across the Company's entire customer base. The property where the Park is located is believed to be owned by the previous water system owner who lives outside the area. As a practical matter, the Company has not been able to identify the owner of the Park and would therefore have no physical address to send the bill for the use of water in the Park. It is equally unclear whether the Park owner would continue water service if billed.

C. Hookup Fee

Murray proposes to increase the hookup fee or connection fee for new service from $800 to $2,000 plus parts and labor to install. As support for its proposed increase, the Company cited the hookup fee of Central Shoshone Water District, a water district operating in a neighboring area, which charges $6,700 for a new 5/8-inch or 3/4-inch connection.

Staff does not oppose increasing the hookup fee to recover the actual cost of parts and installation. Staff believes the cost of labor proposed by the Company of $720 is reasonable based on similar rates charged by contractors in the area. For the materials component, Staff used the unit cost of materials provided by a vendor in nearby Dalton Gardens, Idaho. The total cost for the materials was approximately $415. Allowing a minor amount for unforeseen variables or contingencies, Staff recommended a total amount of $1,200 for the cost of a new hookup.

Staff noted that there are two potential scenarios for hooking up a new customer: (1) customers located on the same side of the road as the buried main line; and (2) customers located on the opposite side of the road of the main line. Staff remarked that providing a service connection by tapping the main line and extending the service line up to a new customer's property line on the same side of the road of the main line would be a relatively straightforward task. However, if the customer's lot is located on the other side of the road, installing the service line would involve significant additional cost (e.g., the cost of boring a hole underneath the road). In order to recover this additional cost, Staff recommended the inclusion of the following language in the Company's hookup fee tariff for new connections:

> When the installation of a new service line requires the Company to bore a line under a road, all additional costs will be charged to the customer on a time and material basis. The new customer may, at their option, hire Murray Water Works' approved independent contractor to perform the road bore and connection. The Company will require such contractor to show proof of bonding, licensing and insurance and have at least five (5) years of experience pertaining to the "hot-tapping" of water lines. Murray Water Works will inspect and approve all the work being performed to insure compliance with the Company's installation requirements.

Commission Findings:

A connection fee for small water utilities is generally defined as a non-recurring charge and is paid by a customer requesting service in order to provide partial or full recovery of the Company's capital cost of providing a new service connection. It usually includes the cost of both the materials and the labor required to install the materials. Sometimes it includes the cost of unusual circumstances such as including, but not limited to, the circumstance where the extension of the service line is placed under an existing roadway.

Without question, new customers on the water system should be required to contribute an amount commensurate with the actual cost of bringing those customers into the water system. The Commission finds that Staff's suggested language is acceptable and should be incorporated into Murray's new tariff filing. Similar tariff language has been approved by the Commission in previous small water utility cases addressing the same issue. *See* Order Nos. 30455 (Case No. DIA-W-07-01) and 31002 (Case No. BCS-W-09-02).

D. Turn On/Turn Off Fee

Schedule 2 of Murray's existing tariff addresses the fee charged for disconnection or reconnection of service, the so-called "Turn On/Turn Off Fee." The fee is applicable when a customer requests new service or a customer leaves without requesting a disconnection of service. In its Application, Murray has put forth conflicting or overlapping time periods, March 1 to October 1 and October 1 to March 1, during which the fee would apply. Murray specified that a higher charge would apply during the winter months of October through March. Murray requests an increase in the fee for the summer period (March 1 through October 1) from $25 to $50, and an increase in the fee for the winter period (October 1 to March 1) from $50 to $75.

Staff countered Murray's proposal with a more simplified approach. Staff suggested that Schedule 2 should be revised in order to form a Non-Recurring Charges Schedule. Staff would eliminate the distinction between the summer period and the winter period. Instead, Staff recommended a Service Establishment Charge of $20 and a Reconnection Charge of $35. The Service Establishment Charge would be applicable to new customers at a service address where service connections already exist. This charge would replace the turn on fee previously approved by the Commission and allow the Company to recover a portion of the costs incurred in establishing a new account. The Reconnection Charge would apply to customers who request reconnection following a disconnection for non-payment or a voluntary disconnection.

Staff does not support a higher after-hours charge or a higher seasonal charge. Staff recommended that the Reconnection Charge be permitted only when the Company has made the physical disconnection or reconnection.

Commission Findings:

The Commission finds that a significant increase of the fee, as put forth by the Company, for connecting or reconnecting water service is not warranted. The Company has not presented an argument or justification to support such an increase. While the Commission has, in the past, allowed a higher fee for work requested or performed after normal business hours, it has not recently allowed a differential based on the time of year. Further, the Commission finds that allowing Murray to recover an increased fee for "after-hours" connection or reconnection in this instance is not appropriate because the Company does not have a physical office space open to the public and therefore does not maintain normal business hours.

Murray's current Schedule 2 holds the property owner accountable for a turn off fee if the customer leaves and does not request a turn off. Rule 206 of the Utilities Customer Relations Rules ("UCRR") reads in relevant part: "A customer shall not be held responsible for the payment of an amount owed by any person who resides at the customer's premises or is a member of the customer's household" unless the customer "expressly accepts responsibility for payment" or has a "legal obligation to pay the other person's bill." The Company indicated that it will continue its current practice of not applying the fee to the seven part-time customers who turn their water on and off themselves as they come and go.

The Commission shares the Company's concern that customers who are allowed to connect and disconnect their service without notice or penalty pose a substantial risk to the system if problems on the customer's side of the connection go undetected. However, Murray's practice of transferring the duty to pay service charges from a previous customer to the current property owner is simply not permissible under the Commission's Rules.

OTHER ISSUES

1. Water Production Data. As part of its investigation, Staff requested monthly water production and consumption data for calendar years 2006, 2007 and 2008. In response to Staff Production Request No. 8, the Company indicated that no water production records are available. Staff believes the Company should be required to record production data to monitor overall system consumption.

Commission Findings:

The Commission orders Murray to develop and maintain a process to record water usage data on the Company's water system. Murray shall submit an annual report summarizing the water usage data. This information is critical as it will assist the Commission in evaluating whether future capacity expansion or the installation of customer meters is necessary.

2. Water Quality. As part of its review of the water system, Staff also looked at the water quality and related issues in order to verify that the Company will be able to adequately and reliably provide safe drinking water to its customers. On June 18, 2008, the IDEQ conducted a Sanitary Survey of Murray's water system.[3] Based on the results of the Sanitary Survey, the Murray system was deemed to be mostly in compliance with the Idaho Rules for Public Drinking Water Systems (IRPDWS). IDEQ did identify one deficiency – Murray's failure to provide minimum separation, 100 feet, between a contaminated water source and the system water supply well. Additionally, the well lot does not provide a 50-foot separation between the well and the nearest property line. As of the date of this Order, the contaminated water source has not introduced contaminants into Murray's water system but does pose the potential to affect the quality of the Company's groundwater.

IDEQ has served notice upon Murray, requiring the Company to submit a plan of correction for these deficiencies. *See* IDEQ letter to Arlen Lish, July 9, 2008. According to IDEQ, Murray has yet to submit a plan of correction to IDEQ.

Commission Findings:

The Commission orders Murray to comply with all IDEQ requirements. Specifically, Murray is ordered to develop and submit a plan of correction to IDEQ and remedy any system deficiencies identified by IDEQ. Murray shall submit to the Commission a copy of the corrective plan required by IDEQ, as well as an invoice detailing the costs of implementing the IDEQ-mandated measures within 90 days of the service date of this Order.

3. Water Rights. During Staff's review of Murray's water rights, it was found that while Murray filed a permit to drill the well which was completed on July 28, 1993, it has not filed an application for permit to appropriate groundwater.

Commission Findings:

The Commission orders Murray to submit, within 180 days of the service date of this Order, an application for a water right to protect the Company's water source and establish a priority date. A copy of the Company's filing shall also be filed with Commission.

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[3] A Sanitary Survey is an onsite review of the water source, facilities, equipment, operation and maintenance to assure a public water system provides an adequate source of water supply, and is distributing safe drinking water.

4. Service Meters. In Murray's Revised Application, filed with the Commission on June 9, 2010, the Company proposed to install meters throughout its water system. According to Murray, metering the entire system is necessary because its customers often fail to notify the Company of water leaks that create pressure problems for other customers on the system.

Staff does not support installing meters throughout Murray's system because it would be another major capital investment. The Company did not submit an estimate of the cost for metering the Murray water system, and Staff's investigation revealed that it may cost the Company approximately $49,500 ($1,500 per service meter installation x 33 customers). Staff noted that one commercial customer is already metered.

Commission Findings:

The Commission finds that the installation of meters throughout the Murray water system is not practicable or cost-effective at this time. The Commission finds that adding the capital investment cost to the Company's current rate base would put additional financial strain on customers. Leak detection is obviously a necessary activity on any water system. However, the Commission cannot justify the incorporation of metering technology into the Company's rate base given the relatively small scale of Murray's operation and the fact that the Company has other means to identify potential leaks occurring on its water system.

5. Backup Power. Customers at the public workshop and in written comments submitted to the Commission asserted there is serious concern regarding the availability of backup power. Customers are justifiably concerned that if there are power outages in the area they will be left without a water supply. Specifically, a customer has indicated that, in the past, local power outages have sometimes left customers without water for one to six days. Staff contacted IDEQ concerning requirements for backup power. IDEQ indicated that there is no requirement for Murray to install backup power for its system. Further, IDEQ stated that it has not received any report from the Company or complaints from the customers regarding the lack of water service for an extended period of time.

Murray provided Staff with a copy of a bid to install an auxiliary power system with a total cost of $22,449. Another estimate, with a different building option, suggests a cost of approximately $9,362. Thus, Staff does not recommend the installation of a backup power system due to the cost and its effect on the Company's rate base. Instead, Staff recommended that Murray be strongly urged to work with the electric utility to restore power as quickly as possible.

Commission Findings:

The Commission finds that the installation of a backup power system is not warranted at this time. If power outages do occur, the Commission orders Murray to work in a collaborative manner with Avista, the electric utility serving Murray's service area, to restore water service as soon as it is practicable. Further, the Commission will dutifully investigate and resolve, according to its published rules and procedures, any complaint submitted by a customer regarding the interruption of water service.

6. Fire Hydrants. Customers also expressed concerns that the Murray water system does not have fire hydrants. Murray's service area is serviced by the Prichard/Murray Volunteer Fire Department. According to Steve Coyle, Fire Chief of the Prichard/Murray Fire Department, the Department currently has a 1,000-gallon capacity fire truck parked in Murray, and another fire tender with a 2,600-gallon capacity based in Prichard. There is a refilling station at Prichard Creek about two miles south of Murray, but the Department has plans to build another refilling station in Prichard Creek.

According to Chief Coyle, there is no requirement that fire hydrants be installed on Murray's water system. IDEQ also indicated that Murray is not required under the Idaho Rules for Public Drinking Water System (IRPDWS) to provide fire hydrants on its water system.

Commission Findings:

The Commission appreciates customer comments on this issue and is generally supportive of their genuine concern regarding fire suppression. However, there is no statutory requirement mandating the installation of fire hydrants on the water system, and we decline to order the Company to install them. The expense of installing hydrants would be significant and would require another rate increase. The Commission finds that the significant capital cost of installing fire hydrants on Murray's water system renders their installation impractical and cost-prohibitive at this time.

7. Company Tariff. Murray's existing tariff was submitted prior to the Commission's adoption of the Model Tariff for Small Water Utilities – implemented in 2008. Murray's tariff does not include the Uniform Main Extension Rules.

Commission Findings:

The Company is ordered to update its tariff and bring it into conformance with the current Model Tariff and include the Uniform Main Extension Rules. Murray shall revise its tariff to include the Commission-approved Rate Schedules, the General Rules and Regulations for Small Water Utilities, and the Uniform Main Extension Rule in a format consistent with the Model Tariff. Staff shall assist Murray in complying with the Commission's Order by providing an electronic copy of the Uniform Main Extension Rules to the Company.

8. Billing Practices. Currently, Murray does not issue monthly billing statements. A review of the Company's records revealed that it does not send any type of notice to customers until the account is more than 60 days past due.

Commission Findings:

The Commission orders Murray to modify its current business practices and begin issuing billing statements that comply with the requirements of the UCRR. Specifically, UCRR 201 states that bills shall be issued on a regular basis and describes the substantive content which must be included in a customer's bill invoice.

The Commission finds that the most practical method to bill customers who are not full-time residents is to bill these part-time customers on an annual basis equal to eight months of water service. This annual prorated charge shall be applicable to all current customers who do not live year-round at the service address. Full-time customers shall be billed on a monthly basis.

9. Termination Notification/Annual Rules and Rates Summary. Murray has submitted copies of its Initial Notice of Intent to Terminate Service and its Final Water Shut-Off Notices. Staff notes that these termination notices meet the requirements of UCRR 305. The standard notice includes the phone number of Murray's owner so that a customer may contact him and make appropriate arrangements regarding their bill. Because the Company does not have a business office, the notice lists the post office box where payments can be sent. Staff stated that the Company's termination procedure, as described in response to production requests, appears to fulfill the requirements of UCRR 311.

Murray does not send out an annual rules summary and an explanation of rate schedules to its customers. Staff stated that it is willing to assist the Company with the creation of a summary of rules and explanation of rate schedules for transmission to Murray's customers.

Commission Findings:

Pursuant to the requirements found in UCRRs 701 and 702, the Commission orders the Company to notify all customers of the current rules regarding termination through the creation and mailing of an annual rules summary and explanation of rate schedules to its current customers.

10. Complaint Records. The Company has stated that it has received no complaints from customers. Recent customer comments and complaints to the Commission suggest that customers have contacted the Company regarding outages and billing. Staff recommended that the Company create and maintain a system to record and assess customer complaints and requests for a conference as required by UCRR 401.

The Commission has received several written comments from Murray customers about this case. The majority of these comments reflect customer concerns regarding the proposed increase for Murray's customers. Other issues raised included the lack of water due to power outages and the lack of fire hydrants for the purpose of fire protection.

Commission Findings:

Pursuant to the UCRR, the Commission orders Murray to develop and maintain a system for the recording of customer complaints. Specific complaints regarding the quality of Murray's water service are addressed elsewhere in this opinion.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over Murray Water Works Systems, a water utility, and the issues presented in this case pursuant to Idaho Code, Title 61, and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq*.

Having fully reviewed the record in this proceeding, we find that Murray's existing rates and charges are unreasonable and do not provide sufficient revenue to the Company. *Idaho Code* § 61-622. Recognizing that Murray is a small water corporation, we find that it is just and reasonable for Murray to receive an equivalent 12% return on rate base. The Commission authorizes an annual total revenue requirement for Murray of $19,767 and a rate base of $35,980. We approve new monthly rates increasing full-time customers from $26 to $51.50; part-time customers from $26 to $34.25; and commercial customers from $26 to $70. We conclude that the rates and charges authorized in this Order are fair, just and reasonable.

ORDER

IT IS HEREBY ORDERED that Murray Water Works Systems' Application for an increase in its rates and charges for water service is approved as set out in the body of this Order. The Company is authorized to collect a total revenue requirement of $19,767 per year, for an overall percentage increase of 98%. *See* Exh. 1.

IT IS FURTHER ORDERED that the Commission approves, as more particularly described and qualified above, changes to Murray's non-recurring fees/charges for new customer connections and reconnections.

IT IS FURTHER ORDERED that the rates, tariffs and charges authorized in this Order shall become effective for service within 14 days of the service date of this Order. Murray is directed to submit revised tariffs that mirror the rates and charges set out in this Order within 14 days of the service date.

IT IS FURTHER ORDERED that Murray shall update its utility tariffs, documentation and practices to bring it into compliance with current Commission Rules and Regulations for Small Water Utilities.

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 1st day of November 2010.

JIM D. KEMPTON, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

MACK A. REDFORD, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

O:MUR-W-10-01_np4

Murray Water Company Rate Case
MUR-W-10-01
Rate Design

Type of Customer	Size	No. of Customers	No. of Months of Service	Tot. Monthly Charge per Customer	Tot. Annual Charge per Customer	Total Annual Revenue
Resident (Full-Time)	3/4 & 1-inch	26	12	$ 51.50	$ 618.00	$ 16,068.00
	2-inch	1	12	$ 70.00	$ 840.00	$ 840.00
Non-resident (Part-Time)*	3/4 & 1-inch	7	8	$ 34.25	$ 411.00	$ 2,877.00
Total		34				$ 19,785.00

Revenue from full-time customers:	**$ 16,908.00**	**85.5%**
Revenue from part-time customers:	**$ 2,877.00**	**14.5%**
Total Revenue :	**$ 19,785.00**	**100.0%**

*Part-time water users served by Murray Water 8 months or less during the year.

EXHIBIT 1
ORDER NO. 32105
CASE NO. MUR-W-10-01

MURAY WATER WORKS
MUR-W-10-01

TYPICAL CUSTOMER METER-AND-SERVICE EQUIVALENT RATIOS 1/

Meter Size (inches)	Equivalent Meter-and-Service Ratio
5/8	1.0
3/4	1.1
1	1.4
1 ½	1.8
2	2.9
3	11.0
4	14.0
6	21.0
8	29.0

1/ From American Water Works Association's Manual of Water Supply Practices

EXHIBIT 2
ORDER NO. 32105
CASE NO. MUR-W-10-01

EXHIBIT 3
ORDER NO. 32105
CASE NO. MUR-W-10-01

Murray Water Works
MUR-W-10-1 Rate Case
Plant in Service , Accumulated Dep., Annual Depreciation Expense and Rate Base

	Property Description	Date Placed in Service	Cost	Life	Annual Depreciation	Years in Service	Accumlated Depreciation	Undepreciated Balance
1	Water System	2002	$ 10,000	25	$ 400	8	$ 3,200	$ 6,800
2	System Improvements	2003	$ 26,186	40	$ 655	7	$ 4,583	$ 21,603
3	Pump and Tank repair	2005	$ 3,670	10	$ 367	5	$ 1,835	$ 1,835
4	Leak Repairs	2009	$ 6,380	10	$ 638	1	$ 638	$ 5,742
			$ 46,236		$ 2,060		$ 10,256	$ 35,980

EXHIBIT 4
ORDER NO. 32105
CASE NO. MUR-W-10-01

MURRAY WATER WORKS
MUR-W-10-01 Rate Case
Operating Expenses
Test Year 2009

		(A) Test Year Actual	(B) Known Changes	(C) Staff's Pro Forma	(D) Reason for Staff Adjustment
1	Labor-Operation & Maintenance	$ 4,800.00		$ 4,800.00	System Management and Operation
2	Labor-Administrative & General		$ 3,000.00	$ 3,000.00	Bookkeeping and Billing @ $250/month
3	Purchased Power & Fuel for Power	$ 1,180.03	$ 119.97	$ 1,300.00	Estimated increase in rates from Avista (10%)
4	Materials & Supplies-Operation & Maintenance	$ 358.28	$ 141.72	$ 500.00	Reasonable increase
5	Materials & Supplies-Admin & General	$ 154.11	$ 95.89	$ 250.00	Reasonable increase
6	Contract Services-Professional	$ 240.00	$ 60.00	$ 300.00	Reasonable increase
7	Contract Services-Water Testing	$ 225.00	$ 425.00	$ 650.00	This is the normalized amount over 9 yr cycle
8	Rentals-Property & Equipment		$ 500.00	$ 500.00	This is for 7-9 hours of backhoe and dumptruck usage
9	Transportation Expense	$ 302.21	$ 97.79	$ 400.00	Reflects the addition cost of gasoline for travel
10	Insurance		$ 150.00	$ 150.00	Cost of Liability insurance on the well lot
11	TOTAL OPERATING EXPENSES	$ 7,259.63	$ 4,590.37	$ 11,850.00	

MURRAY WATER WORKS
MUR-W-10-01 Rate Case
Operating Results
Test Year 2009

		(A) Test Year Actual	(B) Staff's Changes	(C) Total Amount
1	Revenue	$ 10,252		$ 10,252
2	Operating Expenses	$ 7,260	$ 4,590	$ 11,850
3	Depreciation Expense	$ 5,711	$ (3,651)	$ 2,060
4	Regulatory Fees (PUC)	$ 50	$ -	$ 50
5	Property Taxes	$ 95	$ -	$ 95
6	DEQ Fees	$ 75	$ 100	$ 175
7	Total Expenses	$ 13,191	$ 1,039	$ 14,230
8	Net Income/(Loss)	$ (2,939)	$ (1,039)	$ (3,978)

EXHIBIT 5
ORDER NO. 32105
CASE NO. MUR-W-10-01