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# 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**

**COMMENTS OF THE COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of Record, Neil Price, Deputy Attorney General, in response to the Notice of Application and Notice of Modified Procedure issued on February 25, 2010, Order No. 31013, submits the following comments.

## BACKGROUND

On January 13, 2010, Murray Water Works Systems ("Murray" or "Company") filed an Application requesting authority from the Commission to increase its rates and charges for water service. The 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. The Application did not include an effective date for the proposed increase in rates and charges.

The Company'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. The Company claims that a general increase in rates and charges is needed in order to invest in machinery and maintain the system.

Murray estimates that it has invested $15,000 and 360 hours of labor installing a new water main through the town of Murray, Idaho (located approximately 72 miles east of Coeur d'Alene, Idaho).

The Applicant made 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″ service line and to $75 per month for a 2″ 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 charge of $5.00 monthly charge 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.

The Company currently serves 31 full and part-time residential customers and 5 full 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″ service line and 188% for commercial customers with a 2″ service line effective January 10, 2010.

The last rate case for Murray Water setting the monthly rate of $26.00 per month was approved by the Commission in 1994 (Commission Order No. 25771, Case No. MUR-W-94-01). Its latest hook-up fee was adjusted on June 15, 2003 (Commission Order No. 29294, Case No. MUR-W-03-01).

On April 13, 2010, Staff conducted a public workshop in Murray, Idaho to discuss the Company's filing. On March 5, 2010, Staff submitted a total of thirty one (31) separate production requests to Murray. The deadline for responses to the production requests was March 26, 2010. The Company did not submit responses to the Staff's production requests on the established deadline. On April 22, 2010, Staff submitted a Motion to Compel Responses to Production Requests and Extension of Comment Period Deadline. On April 27, 2010, the Commission extended the deadline for issuing comments until June 15, 2010. Order No. 31065.

On June 9, 2010, the Company submitted a revised Application with the following changes: a) install meters throughout the system to track water consumption; and b) hire a certified system operator.

## STAFF ANALYSIS

### System Condition

As part of the evaluation process, Staff conducted a field tour of the water system on March 27, 2010, accompanied by Arlen Lish, owner of Murray Water Works. The tour involved inspecting the various components of the water supply and distribution system focusing on project components that were recently completed, and problem areas where leaks are currently occurring.

The Murray Water Works is currently supplied by a well drilled in 1993 to a depth of 245 feet. The well was cased with 6-inch steel and sealed to a depth of 34 feet. The well test data reported on the well log obtained from the Idaho Department of Water Resources is 50 + gpm. The well is housed in a concrete vaulted pump house approximately four feet below ground surface. A 5-hp submersible pump with a rated capacity of 50 gpm is installed on the well. A totalizing flow meter is installed at the discharge line of the well. The flow meter does not indicate instantaneous flow rate. During the visit, the pressure gauge immediately downstream of the flow meter was observed to be operating at a discharge pressure between 59 to 75 psi. The facility is also equipped with two hydro-pneumatic tanks to supply water during low demand and reduce frequent pump cycling.

Prior to 2001, it was not possible to supply the system from the well without supplementation from surface water due to significant leakage in the older portion of the distribution system that exceeded the pumping capabilities of the well. Since that time, the mainline and distribution systems have been replaced and the surface water sources and reservoirs were disconnected. IDEQ Sanitary Survey Report, June 2008. The new mainline system is mostly comprised of 4-inch PVC-900 pipe. Approximately, two thirds of the total length of the distribution system was replaced by the previous owner, Harry Almquist and the remaining third was replaced by Arlen Lish, current owner of the Company, in November 2002 shortly after purchasing the water system from Mr. Almquist. The new mainline system was constructed parallel to and physically disconnected from the old distribution system which was left undisturbed. According to the Company, the system is not looped but all dead ends are adequately equipped with 2-inch flush hydrants. Individual service connections are not metered; however, individual shut-off valves are installed at each service connection. The previous owner of the Company also installed one 2-inch meter serving a commercial customer as required by IDEQ.

## REVENUE REQUIREMENT

The Company has requested a rate increase in its Application; however it failed to provide any schedules showing the revenue increase necessary to support the requested rates. Staff reviewed the Company's financial information filed with its Application and performed an onsite audit. Based upon its review, Staff is recommending a total revenue requirement of $19,767 and an annual increase in revenue of $9,515. The Company received revenues of $10,252 in the 2009 annual test year. Staff's recommendation increase represents a 92.8% increase in annual revenue for the Company.

The revenue increase is the result of additional plant in service added to the Company's rate base since 2002, and an increase in operating expenses needed to operate the Company. The portion of the revenue requirement attributable to rate base and to operating expenses will be discussed below:

### Rate Base

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

Since 2002, the Company has added three capital investments to the water systems plant. The Company added approximately 1400 feet of water main in 2002, it improved the well and pump in 2005, and finally it capitalized expenses for locating and repairing leaks in the water system in 2009. The total expended for these additions was $36,236. Attachment 1 shows plant in service, accumulated depreciation and depreciation expense.

The Company's financial records show that the expenditures for the well and pump improvements in 2005 were $3,670. Staff audited the invoices and payments the Company used to justify this amount and found that the expenditure was reasonable and prudent.

The Company's financial records show that the expenditures for the leak detection and repair in 2009 were $6,380. Staff, again audited the invoices and payments the Company used as the basis for this amount and found that this expenditure was also reasonable and prudent.

Staff is therefore recommending that these two capital expenditures be accepted as additions to the Company's rate base in the amounts recorded by the Company.

The Company used a useful life of 10 years for depreciation purposed in its tax returns. Staff, after reviewing the expenditures, agrees that 10 years is a reasonable estimation of the capital improvements' useful life for depreciation purposes, and has used 10 years as the useful life of these additions for determining annual depreciation expense. Therefore, the Company should receive annual depreciation expense of $367 for the well and pump improvements, and $638 for the leak detection and repairs improvements.

The Company recorded the amount of $58,589 as the cost of the main line addition in the Company's tax (IRS) schedules. Staff was unable to confirm that amount as the actual cost of the improvements. The Company was unable to provide actual invoices supporting this amount.

During the course of this case, the Company did provide a document representing a list of materials used in the project. Mr. Lish used current prices from Consolidated Supply Co. - CDA to determine that the 2010 cost of the materials was $18,564. Mr. Lish also provided a hand prepared schedule detailing his estimate of the labor and equipment costs of $32,141 required to complete the project. The labor and equipment for the installation of the main line addition was performed by an excavation company owned by Arlen Lish. This company did not bill Murray Water for its work on the project. There are no other documents available to support the Company's cost of constructing the mainline addition. Based on these two documents, the Company represents that the main line addition should be included in rate base in the amount of $50,705.

It is clear that the main line project was completed and that it is currently serving customers. 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 the invoices provided and found invoices showing that materials likely used to construct the main line addition were delivered to Murray, Idaho in the fall of 2002. Mr. Lish indicated that his only excavation job in Murray during that time period was the main line addition. Staff, therefore concluded that the invoices from FNW dated during the time of the main line construction and showing delivery to Murray, Idaho would reflect some if not all of the cost of material used on the main line job and could therefore be included in the cost of the addition. Staff totaled those invoices in the amount of $5,372.

Staff additionally reviewed the Company's schedule detailing the labor and equipment used to construct the project. Staff then 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 these services is $20,814.

The amount that Staff determined is reasonable and prudent for the main line addition is $26,186. Staff is therefore recommending that the main line addition be included in rate base in the amount of $26,186. Staff used a useful life of 40 years as a reasonable life for this addition. Therefore, the annual depreciation expense for the main line addition is $655.

Based upon Staff's recommendations, total plant in service is $46,236. Annual depreciation expense is $2,060 and accumulated depreciation on plant has accrued in the amount of $10,256 for a rate base total of $35,980. These calculations are set forth in Attachment 1.

**Annual Revenues**

The Company recorded revenues during the 2009 test year in the amount of $10,252. Staff determined from the Company's 2009 bank statements that this is the amount of revenue received by the Company and agrees it represents a reasonable level of revenue currently received on an annual basis under the current rates. Staff used this amount in determining additional revenue requirement needed.

**Annual Operating Expenses**

The Company filed a document with its Application entitled "Water Distribution Industry Operator Statement" which purportedly contained financial information on 2009 operating expenses. Staff attempted to reconcile the numbers in this Statement to the financial information received from the Company during its onsite audit review and was not able to reconcile the Statement numbers with the Company's 2009 bank statements, checks, deposits, and tax return. Consequently, Staff used the financial information from these Company documents to establish annual operating expenses.

Based upon Company financial records, Staff identified actual operating expenses of $7,260 in 2009 (Attachment 1, Column A). To this amount, Staff added additional expenses that it believes are necessary for viable operation of the water system (Attachment 2, Column B). Staff's recommendation for each category of expense is shown in Attachment 2 and described below.

Labor- Operation & Maintenance. The Company paid $4,800 in 2009 for Mr. Lish's time and efforts in operating and managing the Company. Staff concurs with the Company that this level of compensation is reasonable for a water company with this number of customers. Staff made an assumption that Mr. Lish was serving as the certified operator in determining that $400 per month is reasonable as an on-going cost. On June 9, 2010, the Company filed a document to amend its original Application. In that document, the Company is asking for additional revenues to cover the cost of hiring a certified operator of the system. The financial analysis presented in these comments does not include any operating expenses for an independent certified operator. Although it is a DEQ requirement that each water system have a certified water operator, Staff assumed in these comments that Mr. Lish would fulfill that requirement himself. Thus, if Mr. Lish is unable or unwilling to be the certified operator, then the $4,800 for Labor – Operation & Maintenance would need to be reduced to reflect the cost of the certified operator's duties being compensated separately.

Labor – Administrative & General. This category represents expenses for bookkeeping, preparation of customer bills and collection of receipts. The Company did not record any expenditures in this expense category. The Company does not have a practice of sending out monthly customer billings; however, one of the complaints and comments from the customers was the lack of a monthly bill. If the Company is to develop the policy of sending out a monthly billing, sufficient revenues should be reflected in rates to cover the cost. Staff has 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.

Purchased Power. This account represents the annual cost of power to operate the pump and system. The Company expended $1,180 in 2009 to its power supplier, Avista.

Materials & Supplies – Operation & Maintenance. The $358 recorded in the account represents 2009 Company expenditures for materials and supplies purchased to maintain the system. Staff increased this amount by $142 to reflect additional minor repairs that should be made to the system. Although this is a 40% increase, the amount of increase is reasonable considering the current condition of the system and the need for more minor repairs, such as system leaks, valve replacements and pump maintenance.

Material & Supplies – Admin & General. The Company spent $154 in 2009 for office expenses, copies, mailings, phone and the other incidentals required to operate a business office. Staff increased this amount by $96 to a total of $250 annually, or approximately $20 per month to pay the increase in materials and supply costs for monthly billing. Again, the percentage increase is large, 62%; but the actual amount is not unreasonable.

Contract Services – Professional. This expenditure is for the costs paid (attorneys, accountants, engineers) for professional services obtained by the Company. The Company recorded $240 in 2009 for accounting services in the preparation of Company's taxes. Staff increased this amount by $60 to $300 for the future cost of the tax return preparation based upon Staff's conversation with the Company's accountant.

Contract Services – Water Testing. The Company is required to test the purity of the water according to a 9-year testing cycle required by DEQ. Because some tests are not required every year, but are required in the 9-year cycle, the cost for testing must be normalized to reflect on an annual basis what the total cost of the testing would be over 9 years. The annual water testing cost is calculated to be $650.

Rentals – Property & Equipment. The Company did not record the actual cost of any rental of property or equipment in 2009. Staff does not believe that it is in the best interest of the customers to neglect the normal and reasonable repairs that the water system will require. Therefore, Staff included $500 for the rental of equipment (backhoes, trucks, compressor, generators) as a reasonable amount for these expenditures annually.

Transportation Expense. Mr. Lish lives approximately 40 miles from the water system. This expense is to record the cost of transportation for Mr. Lish to perform his responsibilities in Murray. The Company recorded $302 in 2009 for gasoline cost. Staff has increased this amount to $400 annual cost based on Mr. Lish's representation that he would make more trips to Murray this coming year.

Insurance. The Company currently does not have liability insurance on the well lot. 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 premium expense in revenue requirement.

The total annual operating expenses for the Company when all of Staff's adjustments are included are $11,850 (Attachment 2, Column C).

**Income Statement**

Staff has prepared Attachment 3 as the Company's annual income statement. With the adjustments as discussed above, the Company will realize a $3,978 net loss or a $3,978 shortage in revenues to cover expenses. This shortage includes the non-operating expenses for PUC Regulatory Fees in the amount of $50; property taxes in the amount of $95, and DEQ fees in the amount of $175.

**Rate of Return on Rate Base**

The Commission in several recent small water cases has allowed a 12% rate of return on equity. Bar Circle S Water Company in Case No. BCS-W-09-02, Order No. 30970; Stoneridge Water Company in Case No. SWS-W-06-01, Order No. 30342; Falls Water Company in Case No. FLS-W-05-01, Order No. 30027; Capitol Water Company in Case No. CAP-W-06-01, Order No. 30198; Spirit Lake East in Case No. SPL-W-06-01, Order No. 30279. Staff is recommending that Murray also receive a 12% return. A 12% return on $35,980 of rate base results in annual revenue of $4,318. Because this amount is subject to taxes on both a federal and state level, this amount must be increased to reflect what affect the payment of taxes will have on this amount. The process of increasing this amount for tax effects is called "grossing-up." Staff has prepared the tax grossing-up factor as shown on the lower portion of Attachment 4. The net to gross multiplier calculation of 128.09% is the percentage that must be applied to the $4,318 to determine the amount of revenue that must be collected in rates to allow the Company to earn the $4,318 as a return on its rate base. When 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 (Attachment 4, line 11).

**Calculation of Revenue Requirement**

Staff has calculated the additional revenue requirement of $9,515 as shown in Attachment 4. The increased revenue requirement that rates must produce is the combination of the net loss of $3,978 and the grossed-up amount for the allowed return on the rate base of $5,530. The total of all the additional revenue that must be generated by the rates is $9,515.

Staff therefore recommends that the Commission allow the Company to increase its rate to allow for an annual revenue increase of $9,515. When this increase is added to the revenue the Company is currently earning of $10,252, the total annual revenue requirement for the Company is $19,767. This represents an increase in rates of 92.8%.

**RATE DESIGN**

The Company currently charges a flat rate of $26.00 per month for all users (residential and commercial) for domestic and other uses. Company Schedule No. 1 - Flat Rate. Murray Water Works is proposing to change its rate design as follows:

Schedule No. 1 – Rates for residential water use to be increased from $26.00 per month to $40.00 per month.

Schedule No. 2 – Rates for commercial customers to be increased from $26.00 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 hook-up to be increased from $26.00 per month to $40.00 per month.

The Company justifies this increase by comparing the rates charged by other water utilities operating close to Murray Water Work's service area such as East Shoshone Water District and Central Shoshone Water District. The Company claims that these water districts charge $45 for a ¾-inch service line. Arlen Lish, owner of Murray Water Works who has two rental homes in the neighboring areas served by the above water utilities, cited his own case where he paid $42.50 for November 2009 water usage to East Shoshone Water District (Wallace) and paid $45.68 for December 2009 water usage to Central Shoshone County Water District (Kellogg). Mr. Lish submitted copies of water invoices supporting his claims. The Company initially 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. However, in the revised Application filed on June 9, 2010, the Company proposed to have a different rate for residential customer with a one-inch service line. Staff disagrees with the Company in setting rates solely based on comparison with other operating water systems. The rates are generally set or approved by the Commission to allow a water utility to recover its legitimate and reasonable costs of operation plus a reasonable return on a case by case basis.

Staff does not oppose using some of the elements of the rate structure proposed by the Company (i.e. designing a rate schedule based on the size of meters or service lines). Staff believes it is more appropriate to design the rate structure for customers classes of Murray Water Works based on service line size for several reasons: 1) there is a variability of service line sizes for residential and commercial customers. A 3/4-inch service size appears to be a standard for the Company for residential customers. The Company confirmed only one residential customer with a 1-inch line; 2) it generally requires a larger portion of system facilities to provide service to customers with larger service lines, shut-off valves and other service fittings (e.g. ¾-inch service versus a 2-inch service); and 3) this is consistent with rate design of small water utilities regulated by the Commission that employ this approach including Teton Springs Water and Sewer Company, Mayfield Springs Water Company, Troy Hoffman Water Corporation and others. Staff believes that rates based on meter size or customer supply line size is appropriate to use in Murray Water Works. As mentioned earlier, the customers are currently not metered. However, the pipe size of customer service line is generally known. Consequently, Staff will distinguish customers based on service size rather than residential and commercial.

According to the Company, Murray Water Works has a total of 39 customers comprised of 34 residential and 5 commercial customers. Response to Production Request No. 1. Out of 34 residential customers, 24 are full-time and 7 are part-time. The remaining 3 customers are currently disconnected from the water system; hence, only 31 are active residential customers. Out of the 5 commercial customers, 3 are full-time and 2 are part-time.

After additional investigation, it was determined that the Company supplies irrigation water to a small community park (City Park) during the summer and is disconnected during winter. Historically, the use of water for the community park has not been billed by the Company. However, as part of the Application, the Company is requesting that the park be billed as another commercial customer. The park lot is believed to be owned by the previous water system owner who does not live in the area. It is unclear whether the lot owner would continue water service if billed. Staff believes that all the customers of Murray Water are benefiting from the community park. During the Staff public workshop for Murray Water Works customers on April 13, 2010, several customers expressed their opinion that the lot owner should not be billed as a customer. The Company could not identify and confirm who to send the water bill to for the use of water in park. Therefore, Staff recommends that the owners of the park lot not be separately billed as a customer. The other remaining commercial customer proposed by the Company to be included as an active customer is the former County Courthouse now privately owned. Staff's investigation revealed that the Courthouse is not currently using water; hence, Staff believes it is not appropriate to include it as an active customer until the Courthouse owner requests connection.

Based on the above discussions, the total number of Murray customers used by Staff in calculating expected revenues is 34 (31 residential + 3 commercial).

The other challenge in designing a rate structure to distribute the total revenue requirement equitably among Murray Water customers is the issue of water usage by full-time and part-time or seasonal customers. Traditional ratemaking procedures and policies assume that an individual (household) should not pay for a commodity they do not use. When electric service, gas service and telephone service is disconnected, billing stops. The same generally holds true for water utility companies. This traditional approach where a customer does not pay for commodity during the period of disconnection shifts the burden of supporting the entire system to those customers who are connected to the system full-time. This is not a problem on a large system with a diverse and large customer base. However, this will be burdensome in a small water utility like Murray Water Works with only 34 customers supporting the water system. Because small water systems lack economies of scale, customers generally pay higher annual water costs.

The Commission has addressed a similar issue on seasonal disconnects for Ponderosa Terrace Estates Water System in various cases. Ponderosa Terrace Estates (PTE) currently has 29 customers. IPUC 2009 Annual Report. In Order No. 29172 (Case No. GNR-W-01-01), the Commission states:

> Since this case's inception, we attempted to provide enough revenue to support Ponderosa's aging infrastructure while not overwhelming the pocketbooks of its small customer base. Because Ponderosa serves a "resort" community in which many of its customers do not permanently reside, some of its customers disconnect from service when they close up their dwellings for the winter months. The Commission believes that this is appropriate practice and one that is often necessary to protect the integrity of the customer's water service from freezing temperatures. That being said, the 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.

In Order No. 29276 (Case No. PTE-W-03-01), the Commission authorized the Ponderosa Terrace Estates Water to charge the following rates:

| Customer Class | Monthly Flat Rate |
|---|---|
| Resident Customers | $48.00 year round |
| Non-Resident Customers | $25.00 year round |

In the above Order, the Commission defined Resident Customers as full-time water system users who live year-round on the property serviced by PTE, and Non-Resident Customers as all other property owners who do not live year-round on the property serviced by PTE, residing onsite part or none of the year. The Non-Resident customer class includes customers who could be served by the system, even if they are nor physically connected to the PTE system.

In the same Order, the Commission also states:

> Ponderosa Terrace Estates is predominantly a part-time summer home development of which 25% of the lots have been improved with permanent structures. Many of these unimproved lots were purchased for future development or are used only sporadically by recreational vehicles. Similar developments are normally owned and operated by a homeowner's association that assesses fees to all property owners to maintain the water system, roads, sewers and all other common property in the subdivision. Although privately-owned, the Ponderosa system is similar in that all 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 Ponderosa 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 of Ponderosa's customers 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.

Staff believes that the issues concerning full-time and part-time or seasonal users of water in the Ponderosa Terrace Water as discussed in the above cases are not significantly different than those in Murray Water's case. Given the Commission's clear position on this matter, Staff, recommends that a similar approach be applied to Murray's case in addressing full-time and part-time water users.

As discussed earlier there are 27 full-time customers and 7 part-time customers, one of which consistently has his water service connected for eight months with disconnection in November and reconnection in April. Similarly, there are 4 part-time customers who regularly use water for six months in spring and summer and then disconnect in the fall. The other 2 part-time customers use water less than a month during the year generally in summer. The part-time customers in most cases 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 charging turn-on and turn-off fees. Schedule No. 2. The part-time customers only pay for the number of months they are using water from the system. With the above information, Staff recommends that customers served by Murray Water are divided into two major customer classes as defined below:

**Full-Time Customer** – Water system users with continuous water service by Murray Water Works for more than eight (8) months during the year.

**Part-Time Customer** – Water system users with water service by Murray Water Works for eight (8) months or less during the year.

The selection of an 8 month cut-off for part-time users is recommended by Staff for two reasons: 1) the Company's billing records indicate that 8-month duration is the longest water service for customers with seasonal disconnect; and 2) non-usage related expenditures (fixed) in relation to the total cost of operating the system is quite high. This necessitates that part-time users share in the cost of system facilities; otherwise, the remaining full-time users will carry an unfair financial burden.

Because the system is unmetered, Staff proposes to spread the $19,767 annual revenue requirement to all water users based on the class of customers and the size of service line. 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 eight months or equivalent to 8/12 for full-time customers. To further simplify tariff design, Staff recommends that customers with ¾ and 1-inch service lines be grouped in one 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 Attachment 5 be used to establish rates for customers with larger services. The 2-inch service size results in a ratio that is approximately 2 times the ratio for 1-inch service.

In response to Staff Request No. 4, the Company provided the following breakdown of the number of customers using various service line sizes:

| Type of Customers | Service Line Size | Number of Customers |
|---|---|---|
| Full-Time Customers | 3/4 & 1- inch | 26 |
| | 2 - inch | 1 |
| Part-Time Customers | 3/4 & 1- inch | 7 |
| **Total** | | **34** |

Using the Staff's rate design proposal as discussed above, the various expected revenues were calculated for various customer classes as presented in Attachment No. 6. The Staff's recommended annual and monthly charges for various customer classes are as follows:

| Customer Class | Size of Service | Annual Charges | Monthly Charges |
|---|---|---|---|
| **Full-time Customer** | 3/4 & 1- inch | $607 | $50.60 |
| | 2-inch | $1,164 | $97.00 |
| **Part-time Customer** | 3/4 & 1- inch | $404 | $33.70 |

With the Staff's proposed rate structure, the annual bill for a full-time residential customer served with the Company's standard service line size of ¾ and 1-inch is approximately $607 as shown in the above table. This is equivalent to approximately $50.60 per month or an increase of 94.6% from current rate of $26.00 per month. The last rate case for Murray Water setting the monthly rate of $26.00 was approved by the Commission in 1994 (Commission Order No. 25771, Case No. MUR-W-94-01). The total increase of 94.6% is equivalent to an annual increase of 5.9% since 1994. The annual water charges could be paid by the full-time or part-time customers on an annual or on a monthly basis. Additional discussions concerning customer payments are presented under the Customer Billing Section of Staff Comments.

The Company proposes to charge customers who are not using water $5.00 per month to help maintain the system. Staff believes that with the recommended rate design, it already attempts to allocate equitably the total revenue requirements to various users, whether they are full-time or seasonal users. Repairs and maintenance costs are part of the non-usage related expenditures and all users are charged with these costs. Under the Company's proposal of charging $5.00 per month, it also proposes that if the customer does not pay the minimum payment for three (3) months, the customer will lose his/her hook-up. This proposal will no longer apply if the Staff's proposed rate design is approved by the Commission. Service disconnection for non-payment or for other reasons is governed by the Company's Rules and Regulations approved by the Commission.

The Company is also proposing to change the rate for Schedule 3 to be increased from $26.00 per month to $40 per month. Schedule 3 specifies that an additional fee is charged for one household if a trailer or cabin is connected on the same hook-up. 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 Water if such households take water free of charge. Staff believes it is reasonable for the Company to charge an additional customer on the same hook-up a rate similar to that applicable to the primary customer. For example, if the primary customer is a full-time customer with a 3/4-inch service line and is paying $607 per year or $50.60 per month as shown in the above table, then the other household will also be charged with the same rate at $607 per year or $50.60 per month.

## OTHER WATER SYSTEM OPERATIONAL ISSUES

### 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. This information will aid in evaluating future capacity expansion or the need for customer meters.

### Water Quality

As part of its review of the water system, Staff also looked at the water quality and related issues to assure that the Company can adequately and reliably provide safe drinking water to customers. A Sanitary Survey of the Murray Water System was conducted by the Idaho Department of Environmental Quality (IDEQ) on June 18, 2008. 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 in distributing safe drinking water. Based on the results of the IDEQ's 2008 Sanitary Survey the Murray Water Works system is mostly in compliance with the Idaho Rules for Public Drinking Water Systems (IRPDWS). However, one deficiency identified in the survey was the failure of the Company to provide minimum separation of 100 feet between a contaminated water source and the system water supply well. The contaminated source could potentially affect the quality of the Company's groundwater. In addition, the well lot does not provide a 50-foot separation between the well and the nearest property line. IDEQ required Murray to submit a plan of correction for these deficiencies. IDEQ letter to Arlen Lish, July 9, 2008. According to IDEQ, no plan of corrections has been submitted by the Company to date. Staff recommends that the Company continue to work with IDEQ on any identified system deficiencies and notify the Commission of the cost for corrective measures.

**Water Rights**

During Staff's review of the Murray's water rights, it was found that while Murray Water filed a permit to drill the well which was completed on July 28, 1993, it has not filed an application for permit to appropriate ground water. Staff recommends that the Company makes such a filing to protect the Company's water source and establish a priority date.

**Service Meters**

During the Staff workshop held on April 13, 2010, there appeared to be an understanding by the customers that the Company is proposing to install service meters. In the Company's initial Application, however, it did not propose the installation of meters for all customers but states the Company needs to install water meters in the system to isolate water leakage as well as water usage in the summer. Shortly after that meeting, follow-up discussions with the Company indicated that it was not modifying the Application to propose metering the whole system. However, on June 9, 2010, the Company filed a revised Application with the Commission indicating that Murray proposes to install meters throughout the system so it can determine where the water is going. The Company claims that customers fail to notify the Company of water leaks that create pressure problems for other people in the system.

Staff generally supports the concept of installing meters to encourage water conservation and better rate design. However, in Murray's case at this time, Staff does not support the idea of installing meters throughout the system for two reasons: 1) it will be another major capital investment for the Company to pursue. The Company did not submit an estimate of the cost but preliminary figures obtained by Staff indicated that it may cost the Company approximately $49,500 ($1,500/service meter installation x 33 customers). Staff notes that one commercial customer is already metered. If this capital investment is added to the Company's rate base, it will put additional financial strain on the customers; 2) there are other options that can be pursued by the Company to identify suspected leaks occurring on the customer side of the water system. Staff, however, does not oppose the Company's initial plan to install service meters in a case by case basis where it suspects a specific customer may have a leak in his/her property service line or may be abusing the use of water.

**Back-up Power**

One major concern voiced by the customers during the Staff workshop and from written comments to the Commission relates to availability of back-up power. The customers are concerned that if there are power outages in the area, they are left without water supply. One customer indicated that in the past, the customers did not have water for 1 to 6 days when they experienced power outages in the area. Staff contacted the IDEQ in Coeur d'Alene concerning requirements for back-up power and DEQ indicated that there is no requirement for the Murray Water Works system to install back-up power for the present system. DEQ has not received any report from the Company or complaints from the customers that they are out of water for extended periods of time.

One customer commented that there was another customer offering a back-up power generator and all the Company needs to do is install it. The Company also provided Staff a copy of a bid to install an auxiliary power system with a total cost of $22,449. Another cost with a different building option would cost about $9,362.

Staff does not necessarily oppose the idea of installing back-up power to provide additional system reliability. However, given the current costs of operating and maintaining the water system and the small number of customer base to support additional capital investments which will correspondingly increase customers' water rates, Staff does not recommend pursuing this project at this time. Instead, Staff recommends that the Company work with the electric utility to restore power as quickly as possible when it goes out.

**Fire Hydrants**

Another major concern raised by the customers is that the Murray Water system does not have any fire hydrants to use in case there is a fire in the Murray area. Murray is currently covered by the Prichard/Murray Volunteer Fire Department. According to Steve Coyle, Fire Chief of the Prichard/Murray Fire Department, the current fire protection for Murray includes a 1,000-gal capacity fire truck parked in Murray. It is assisted by another fire tender with a 2,600-gal capacity based in Prichard. It has a refilling station at Prichard Creek about two miles south of Murray but the Fire Department has plans to build another refilling station in Prichard Creek closer to Murray. According to Mr. Coyle he does not believe there is a requirement for the Fire Department to have fire hydrants installed in Murray Water Works system. IDEQ has also indicated that Murray Water Works is not required under the Idaho Rules for Public Drinking Water System (IRPDWS) to provide fire hydrants in its water system. It may not be cost-effective to install fire hydrants in Murray's water system compared to other alternatives given the existing minimum mainline sizes.

**HOOK-UP FEE**

The Company proposes to increase the hook-up fee or connection fee for new service from $800 to $2,000 plus parts and labor to install. The Company believes that the new customers should contribute to system investment. The Company also justifies its proposed cost by comparing other water utility companies in the neighboring areas such as Central Shoshone Water District which charges $6,700 for a 5/8-inch or a ¾-inch new connection. For small water utilities regulated by the Commission, the connection fee or hook-up fee is generally defined as a non-recurring charge paid by a customer requesting service for partial or full recovery of \the Company's cost of providing a new service connection. It usually includes the cost of materials and labor to install the materials to provide the necessary connections. Sometimes it includes the cost of unusual circumstances such as a service line crossing a road.

Staff does not oppose charging a new customer with a hook up fee to recover the actual cost of parts and installation. Staff believes the cost of labor proposed by the Company of $720 was 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 Dalton Gardens, Idaho. The total cost for the materials was approximately $415. Allowing a minor amount for contingencies, Staff recommends a total amount of $1,200 for the cost of new hook-up.

Staff notes that there are two potential scenarios for hooking-up new customers of Murray Water Works. It would be a relatively straightforward task to provide service connection tapping the mainline and extending service line up to a new customer's property line if such customer's lot is on the same side of the road where the mainline is located. If the customer's lot is located on the other side of the road, there will be an extra cost of installing the service line such as boring a hole underneath the road. To recover this cost, Staff recommends the inclusion of the following language in its Company's hook-up 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 at hot-tapping water lines. Murray Water Works will inspect and approve all the work being performed to insure compliance with the Company's installation requirements.

Similar language in the tariff has been approved by the Commission in previous small water utility cases addressing the same issue such as Order No. 30455 (Case No. DIA-W-07-01) and Order No. 31002 (Case No. BCS-W-09-02).

## CUSTOMER NOTICES AND PRESS RELEASES

The Company's Application did not include a copy of the customer notice or the press release as required under Rule 125 of the Commission's Rules of Procedure. To assist the Company, Staff forwarded a draft customer notice to the Company, to be dated, printed and sent to the customers and to the local newspapers, to meet the rule requirements. However, the Company has indicated it did not send the notice out to customers.

The Commission issued a Press Release regarding the public workshop on April 2, 2010. Also on April 2, 2010, the Commission sent a Notice of Public Workshop to all the interested parties in the case and to customers on the Company's mailing list. The workshop was held in Murray on Tuesday April 13, 2010. There were 25 attendees.

## CUSTOMER RELATIONS

As of May 19, 2010, the Commission has received five (5) written comments from four (4) customers regarding this case. The majority of comments reflect concern about the large increase for residential customers, which includes senior citizens and low income families. Other issues raised are the lack of water due to power outages and the lack of fire hydrants for the purpose of fire protection.

Since January 1, 2007, the Commission has received two (2) informal complaints, both as a result of the current rate case. The customers expressed concern about the failure of the Company to send billing statements, the lack of back-up power source and fire protection and the delay in providing new service connections. These customer issues have been previously addressed in Staff Comments.

## NON-RECURRING CHARGES

### Turn-on/Turn-off Fee

Schedule 2 of the existing Company Tariff covers a Turn-on/Turn-off Fee which applies in situations where a new customer requests service or a customer leaves without requesting a disconnection of service. Conflicting or overlapping time periods, March 1 to October 1 and October 1 to March 1 are specified with a higher charge for the winter months from October to March. The Company has requested an increase to the fee for the summer period from $25.00 to $50.00, and an increase to the fee for the winter period from $50.00 to $75.00. The Company has presented no cost justification for the increased fees requested. The schedule does not address situations typically encountered by utilities, such as reconnection of service after an account has been disconnected for non-payment. While the Commission has allowed a higher fee to be charged for work requested or performed after normal business hours, it has not recently allowed a differential based on the time of year the service is provided to the customer. Schedule 2 also holds the property owner accountable for a turn-off fee if the customer leaves and does not request a turn-off. The idea of a property owner being held responsible for the inaction of a tenant is not allowed under Rule 206 of the UCRR. The Company has indicated that it does not apply the fee to the seven (7) part-time customers who turn their water on and off themselves as they come and go. Staff is concerned that these customers are allowed to connect and disconnect their service because of the risk to the system due to a problem on the customer's side of the connection which goes undetected.

Staff suggests that Schedule 2 as it stands be eliminated and in its place a new Non-Recurring Charges Schedule be implemented to include a Service Establishment Charge and a Reconnection Charge. The Service Establishment Charge will be charged to new customers at a service address where service connections already exist. This charge will 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 will be charged to customers who request reconnection following a disconnection for nonpayment, or a voluntary disconnection. While no cost study has been done in this particular case or recent cases where a reconnection charge has been requested, the Commission has allowed Companies a charge to customers to allow the Company to recover a portion of the time and labor costs to reconnect service after either a voluntary disconnection or after an involuntary disconnection for nonpayment. The Commission has also previously allowed a higher charge when a reconnection is completed outside of normal business hours.

However, since the Company has no Company office and does not maintain normal business hours, Staff does not recommend a higher after-hours charge or a higher seasonal charge. Staff recommends that the Reconnection Charge is to be only allowed when the Company has made the physical disconnection and reconnection and not when the customer disconnects and reconnects themselves. Staff recommends that the Company revise its Schedule 2 as a Non-Recurring Charges Schedule and recommends a Service Establishment Charge of $20.00 and a Reconnection Charge of $35.00.

## COMPANY DOCUMENTATION

### Company Tariff

The three sections of a small water utility Tariff – the Commission approved rate schedules, the General Rules and Regulations for Small Water Utilities and the Uniform Main Extension Rules – describe the relationship between the customers and the Company and establish the basic rules for providing service. The Company's existing tariff on file with the Commission predates the Model Tariff for small water utilities implemented in 2008. It also does not include the Uniform Main Extension Rules. The Company needs to update its tariff to conform to the current Model Tariff and include the Uniform Main Extension Rules.

Staff is willing to provide a copy of the Uniform Main Extension Rules in electronic format to the Company. Staff recommends that the Company revise its Tariff to include its 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.

### Billing

The Commission's requirements for billing documentation are contained in Rule 201 of the Utilities Customer Relations Rules (UCRR), which states that bills shall be issued on a regular basis, and describes the content requirements for the bills. The Company has submitted samples of its monthly billing statements. The statements do not allow space for the itemization of non-recurring charges and do not meet the requirements of Rule 201.

Even though the Company's Rate Schedules are set at a monthly rate, the Company does not send monthly billing statements. The Company's records indicate it does not send any type of notice to customers until the account is more than sixty days past due. Staff is concerned about the lack of regular billing.

As discussed earlier under rate design, Staff has recommended that customers who are not full-time residents be billed an annual charge equal to eight months service. This annual charge is applicable to all current customers who do not live year-round at the service address and can be billed monthly on a pro-rated charge. Staff recommends that the Company revise its statements to comply with UCRR requirements and begin mailing monthly statements to all customers.

**Termination Notification**

The Company submitted copies of its Initial Notice of Intent to Terminate Service and its Final Water Shut-Off Notices. The termination notices meet the requirements of Rule 305 of the UCRR. The notices include the owner's phone number to call and make arrangements to pay past due bills. Because the Company does not have a business office, the notices include only the post office box where payments can be sent. The Company's termination procedure as described in response to production requests appears to fulfill the requirements of Rule 311 of the UCRR. Staff recommends that the Company notify all customers of the current rules regarding termination through an annual rules summary.

**Annual Rules and Rates Summary**

The Company states that it does not send out an annual rules summary as required under Rule 701 of the UCRR or the annual rules summary as required under Rule 702. Sample summaries are available and Staff is willing to work with the Company to create a summary of rules and rates. Staff recommends that the Company generate an annual rules summary and mail it on an annual basis.

**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 recommends that the Company create and maintain a system to record and maintain customer complaints and requests for a conference as required by Rule 401 of the UCRR.

## RECOMMENDATIONS

1. Staff recommends that the rate base of $35,900 be approved.
2. Staff recommends that the Company's annual revenue requirement to be increased by an additional $9,515 and that the new revenue requirement of $19,767, or an increase of 92.8%, be approved.
3. Staff recommends that the Commission approve the new rates proposed by Staff based on full-time and part-time customers, and the size of service lines.
4. Staff recommends that a hook-up fee of $1,200 be assessed for new customers.
5. Staff recommends that additional costs for time and labor will be charged to new customers when the installation of new service line requires the Company to bore a line under the road.
6. Staff recommends that the Commission deny the Company's request to charge $5 per month when Murray Water customers are not using the water.
7. Staff recommends that the Commission approve the Staff proposed rates for the Company's Schedule 3.
8. Staff recommends that the Company's owner Arlen Lish obtain recertification as a Licensed Water Distribution System Operator or hire one to operate the water system.
9. Staff recommends that the Commission deny the request of the Company to install meters throughout the system at this time but allow the Company to install service meters on a case by case basis in connection with major leak detection.
10. Staff recommends that the Commission direct Murray Water to continue to work with IDEQ on any identified system deficiencies and notify the Commission of the cost for corrective measures.
11. Staff recommends that the Commission direct Murray Water to file an application for permit to appropriate ground water for protection of the Company's water source and establishment of priority date.
12. Staff recommends that the Commission direct Murray Water to read and record monthly well flow data.

13. Staff recommends that the Company review and update all notices, bills and other documents to be consistent with Commission's Rules and Regulations, including the Company Tariff with all Schedules, General Rules and Regulations and Main Line Extension Rules, monthly billing statements, initial notice of termination, final notice of termination, and annual rules summary.
14. Staff recommends that the Company send out monthly billing statements to all customers.
15. Staff recommends that the Company send out an annual rates and rules summary.
16. Staff recommends that the Company create and maintain a log for customer complaints and requests for a conference.
17. Staff recommends a Service Establishment Charge to be applied to new customers at an existing service address.
18. Staff recommends a Reconnection Charge to be applied when the Company reconnects service at the customer's request after an involuntary disconnection for nonpayment or a voluntary disconnection.

Respectfully submitted this 15th day of June 2010.

Neil Price
Deputy Attorney General

Technical Staff: Joe Leckie
Gerry Galinato
Chris Hecht

i:umisc:comments/murw10.1npjlggcwh comments

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 |

Attachment 1
Case No. MUR-W-10-01
Staff Comments
06/15/10

**Attachment 1**

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 | |

Attachment 2
Case No. MUR-W-10-01
Staff Comments
06/15/10

**Attachment 2**

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

| | | (A) Test Year Actual | (B) Staff's Changes | (C) Staff's Amount | |
|---|---|---|---|---|---|
| 1 | Revenue | $ 10,252 | | $ 10,252 | |
| 2 | Operating Expenses | $ 7,260 | $ 4,590 | $ 11,850 | See Attachment 2 |
| 3 | Depreciation Expense | $ 5,711 | $ (3,651) | $ 2,060 | See Attachment 1 |
| 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) | |

**Attachment 3**

Murray Water Works
MUR-W-10-01 Rate Case
Calculation of Revenue Requirement

| | | | | |
|---|---|---|---|---|
| 1 | Rate Base | | | $35,980 |
| 2 | Rate of Return | | | 12.00% |
| 3 | Net Operating Income Requirement | | | $4,318 |
| 4 | Net Operating Income Realized | | | $3,978 |
| 5 | Net Operating Income Deficiency | | | $340 |
| | Revenue Requirement Increase to | | | |
| 6 | Overcome Loss | | | $3,978 |
| 7 | Incremental PUC Fees @ | 0.1662% | | $7 |
| 8 | Gross Revenue Requirement to Overcome Loss | | | $3,985 |
| | Revenue Requirement Increase | | | |
| 9 | Subject to Income Tax | | $4,318 | |
| 10 | Tax Gross-up Factor | | 128.09% | |
| 11 | Required Revenue Increase | | | $5,530 |
| 12 | Revenue Increase Required | | | $9,515 |
| 13 | Amortize Rate Case Expenses | | | $0 |
| 14 | Total Revenue Increase Required | | | $9,515 |
| 15 | Total Revenue Collected in Test Year | | | $ 10,252 |
| 16 | Total Annual Revenue Requirement | | | $ 19,767 |
| 17 | Revenue Increase % | | | 92.81% |

Tax Gross-up Factor Calculation
Gross-up Factor Calculation

| | |
|---|---|
| Net Deficiency | 100% |
| PUC Fees | 0.1662% |
| Bad Debts | 0.0000% |
| Taxable Amount | 99.8338% |
| State Tax @ 8% | 7.9867% |
| Federal Taxable | 91.8471% |
| Federal Tax @ 15% | 13.7771% |
| Net After Tax | 78.0700% |
| Net to Gross Multiplier | 128.09% |

**Attachment 4**

**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

**Attachment 5**

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

| | | | |
|---|---|---|---|
| **Staff Recommended Revenue Requirement:** | **$** | **19,767** | |
| **Non-usage related expenses (Fixed)** | **$** | **16,817** | 85.1% |
| **Usage-related expenses (Variable)** | **$** | **2,950** | 14.9% |

| Type of Customer | Size of Service Line | No. of Customers | No. of Months of Service | Mo. Variable Expenses per Customer | Monthly Fixed Exp. per Customer | Total Mo. Charge per Customer | Total Annual Var Rev. | Total Annual Fixed Rev. | Total Annual Charges | Total Annual Revenue |
|---|---|---|---|---|---|---|---|---|---|---|
| Full-Time | 3/4 & 1-inch | 26 | 12 | $ 7.23 | $ 43.33 | 50.56 | $ 86.76 | $ 519.96 | $606.72 | $ 15,775 |
| | 2-inch | 1 | 12 | $ 7.23 | $ 89.76 | 96.99 | $ 86.76 | $ 1,077.06 | $1,163.82 | $ 1,164 |
| Seasonal* | 3/4 & 1-inch | 7 | 8 | $ 7.23 | $ 43.33 | 50.56 | $ 57.84 | $ 346.64 | $404.48 | $ 2,831 |
| Total | | 34 | | | | | | | | $ 19,770 |

| | |
|---|---|
| Total Annual Revenue from Fixed Charges: | $17,023 |
| Total Annual Revenue from Variable Charges: | $2,748 |
| Total Annual Revenue | $19,770 |
| Total Revenue Under/Over | $3.05 |

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

**ATTACHMENT 6**

# CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 15TH DAY OF JUNE 2010, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. MUR-W-10-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

ARLEN LISH
OWNER
MURRAY WATER WORKS
PO BOX 117
KINGSTON ID 83839

SECRETARY