

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION OF
PICABO LIVESTOCK COMPANY, INC. FOR
AUTHORITY TO INCREASE RATES AND
CHARGES FOR THE PICABO WATER
SYSTEM.**

CASE NO. PIC-W-04-1

ORDER NO. 29538

On March 25, 2004, Picabo Livestock Company, Inc. (Picabo; Company) filed an Application for a rate increase for the Company-owned Picabo Water System. Picabo provides water service to 36 customers in or near Picabo, Idaho. Because of additional capital investment and increased expenses for power, maintenance, materials and water testing, the Company requests an \$8 per month increase in its published domestic and irrigation water rates. The Commission in this Order approves an annual revenue requirement for Picabo of \$13,494, an increase in customer rates, a Reconnection Charge and a Special Provision Charge for customer-requested shut-offs and/or turn-ons.

Picabo charges a flat rate to its customers. Residential rates for Picabo customers are \$14/month year-round plus an additional \$12/month for sprinkling (April 1-September 30) for an annual charge per residential customer of \$240. Commercial rates are \$24/month year-round plus an additional \$21/month for sprinkling (April 1-September 30), for an annual charge per commercial customer of \$414. The \$8/month increase requested by the Company would equate to an annual water charge for residential customers of \$384 and for commercial customers of \$558 and provide the Company with an annual increase in gross revenues of \$4,848, or 56%.

On April 9, 2004, the Commission issued Notices of Application and Modified Procedure in Case No. PIC-W-04-1. A public workshop for Picabo customers was held in Picabo on May 20, 2004. The purpose of the workshop was to provide customers with an opportunity to hear from Commission Staff regarding the Company's Application and to ask questions of Staff and Company representatives. No customers attended the workshop. The deadline for filing written comments regarding the Company's Application was May 28, 2004. Comments were filed by the Commission Staff and one of the Company's customers. The customer's comments, humorous in nature, stated, "Water should be free. As a matter of fact...Everything should be free."

A. Revenue Requirement

Based on its review of Picabo's financial records, Staff supports the increase in revenue requested by the Company. Staff supports a revenue requirement of \$13,494, an increase of approximately 57% in the Company's total revenues.

As reflected in Staff Comments, the Picabo Water System is a very small part of the Picabo Livestock Company's overall business. It is an unmetered system comprised of a new well and control system, an elevated reservoir, and conventional distribution system. The reservoir and initial water system was constructed in the early 1900s. A number of upgrades and reconstruction projects have kept the system current with changing regulatory requirements. The entire distribution system was replaced in 1992. The most recent system improvements include repainting and repair of the reservoir and the addition of a new primary well and modern variable frequency control system. The old well is located on property not owned or controlled by the Company and is subject to increasing maintenance problems. The new well is located adjacent to the Company reservoir and provides increased reliability and water flow for fire protection. The Company has retained an agreement with the original well property owner to keep the well in service to provide the required back-up supply to the system.

In its review of the Company's financial records, Staff learned that the Picabo Livestock Company does not bill six residential properties that are owned by the Livestock Company and connected to the water system. Nor does the Company pay for water service to two feedlots that are utilized for six months of the year. Staff imputed revenues attributed to the use of water service connections as though they were billed for the service as independent customers of the Company. Including the imputed Company-owned service connections, there are 31 residential service connections on the Picabo water system and 5 commercial service connections.

Accounting for the water system operation is rolled into the financial records of the Picabo Livestock Company. Only two accounts are utilized to track the performance of the water system. One account tracks actual revenues billed. The other account is used to capture all direct expenses paid by the Livestock Company for operation and maintenance of the water system. Staff notes that the Company does not record any labor expense associated with operation and maintenance of the water system. All labor expenses are absorbed by the livestock operation. Depreciation expense associated with the water system assets are embedded in the

depreciation expense of the livestock operation. The assets are, however, separately identified on the depreciation schedule maintained by the Company's outside accountant for tax purposes.

Staff analyzed all the direct expenses recorded by the Company and separated expenses into appropriate categories. This schedule is an income statement that includes an analysis of cash flow. The actual operating results for the Picabo water system reflect a net loss and negative cash flow for the year 2002. The livestock operation has absorbed this loss and negative cash flow. After adjusting the income statement to recognize the effect of the proposed increase, the Company would realize net operating income of \$2,976.45, but after paying its debt service costs would only realize total net income of \$785.45. Cash flow to the Company would become positive at \$2,318.07. Based on its analysis, Staff does not believe the revenue increase the Company has requested is unreasonable.

The Commission has reviewed and considered the filings of record in Case No. PIC-W-04-1 including the comments and recommendations of Commission Staff. The Commission is informed that Staff has reviewed its study and conclusions with the Company and that the Company is in agreement. Based on our review of Company income and expenses, we find it reasonable to establish an annual revenue requirement for Picabo of \$13,494, representing an increase of approximately 57% in the Company's total revenues. The Commission in establishing same acknowledges that the revenue requirement includes no expenses for labor or management. The Company performs this service at no cost to customers.

B. Rate Design

Staff notes that under the Company's proposal to increase all monthly rates by \$8.00, residential base rates would increase by 57% while commercial rates increase by only 33%. Staff believes that a rate design based on a more uniform percentage increase to all customer classes is more appropriate than the Company's recommended \$8 increase for all customer classes. Staff proposes "even dollar amount" increases to the Company's flat rates based on the overall requested increase of 56%. The net revenue result of Staff's rate design proposal and use of even dollar amounts is a slightly greater total annual revenue amount, i.e., \$13,494, than the Company's requested \$13,440.

The rate design proposed by Staff is as follows:

			Existing Rates		Staff Proposal			
Customer Class	Number of Cust.	Months of Service	Current Rates \$/Mo	Total Current Rate Revenue	Staff Prop. Spread of Increase	Staff Prop. Rates \$/Mo.	Staff Prop. Rate Revenue	Percent Increase
Residential Domestic	31	12	\$14.00	\$5,208.00	\$ 8.00	\$ 22.00	\$ 8,184.00	57%
Residential Irrigation	31	6	\$12.00	\$2,232.00	\$ 7.00	\$ 19.00	\$ 3,534.00	58%
Commercial Domestic	3	12	\$24.00	\$ 864.00	\$ 13.00	\$ 37.00	\$ 1,332.00	54%
Commercial Irrigation	0	6	\$21.00	\$ -	\$ 12.00	\$ 33.00	\$ -	57%
Commercial / Feed Lot	2	6	\$24.00	\$ 288.00	\$ 13.00	\$ 37.00	\$ 444.00	54%
Total				\$8,592.00			\$13,494.00	57%

The Commission is informed that the Company concurs with Staff's recommended rate design. The Commission finds the uniform percentage increase and even dollar amounts recommended by Staff to be a fair, just and reasonable rate design.

C. Miscellaneous Charges

Staff in its Comments recommends approval of a \$25 Reconnection Charge. The Company's existing rules summary provides for assessment of a Reconnection Charge but Staff notes the Company has no reconnection tariff. Staff recommends a reconnection fee to help offset costs. A \$25 charge is comparable to similar fees for other water utilities. The Company accepts the charge as a collection tool should disconnection for non-payment prove necessary.

Staff recommends approval of a \$15 Special Provision Charge to be assessed for any shut-off and/or turn-on by the Company at the request of a customer for purposes other than involuntary disconnection. The \$15 Special Provision Charge is an existing tariffed item for service made at the request of customers during times other than regular business hours. The proposed change expands the time and circumstances under which the charge may be assessed.

The Commission finds the Staff proposed \$25 Reconnection Charge and change to the Company's Special Provision Charge tariff language to be reasonable and acceptable.

The Commission finds it reasonable to approve the foregoing changes in rates, charges and tariffs for an effective date of July 1, 2004.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

Picabo Livestock Company, Inc. dba Picabo Water System is a water utility subject to the regulatory jurisdiction of the Idaho Public Utilities Commission pursuant to Idaho Code, Title 61. The Commission has jurisdiction over this matter as authorized by *Idaho Code* §§ 61-301, 61-501, 61-503 and 61-623.

Having fully reviewed the Application, the written comments and the audit and recommendations of the Commission Staff, we find Picabo's annual revenue requirement to be approximately \$13,494. We also find Staff's proposed rate design to be reasonable and appropriate to meet Picabo's revenue requirement. We conclude that the rate increase is fair, just and reasonable and in the public interest. We further find the proposed Reconnection Charge and change to the Company's Special Provision Charge tariff language to be fair, just and reasonable.

ORDER

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED that the rates and charges recommended by Staff are approved for an effective date of July 1, 2004. Picabo is directed to file conforming tariffs.

IT IS FURTHER ORDERED and the Commission does hereby approve a \$25 Reconnection Charge and a \$15 Special Provision Charge to be assessed for customer-requested shut-offs and/or turn-ons. The charges and changes in tariff language we approve are for an effective date of July 1, 2004. Picabo is directed to file conforming tariffs.

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 30th
day of June 2004.



PAUL KJELLANDER, PRESIDENT

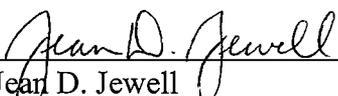


MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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