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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)
PICABO LIVESTOCK COMPANY, INC. FOR) **CASE NO. PIC-W-04-1**
AUTHORITY TO INCREASE RATES AND)
CHARGES FOR THE PICABO WATER)
SYSTEM.)
) **COMMENTS OF THE**
) **COMMISSION STAFF**
)

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Application, Notice of Modified Procedure and Notice of Comment/Protest Deadline issued on April 9, 2004, submits the following comments.

BACKGROUND

On March 25, 2004, Picabo Livestock Company, Inc. filed an Application for a rate increase for the Picabo Water System (Picabo; Company). Nick Purdy, Manager of the Picabo Water System, reports that expenses for power, maintenance, materials and water testing have increased dramatically in the ten years since the Company's last rate increase. (Case No. PIC-W-94-1, Order No. 25447) The Application requests an increase of \$8.00 in each of the Company's four tariff rates.

The Picabo Water System is a very small part of the Picabo Livestock Company's overall business. It is an unmetered system composed 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.

The water system operator is well qualified and has considerable knowledge of water systems. Because of the operator's knowledge and experience the Company is able to perform much of its own maintenance and improvement activities using Company-supplied labor.

STAFF ANALYSIS

Financial Review

Staff reviewed the financial records of the Company to determine the reasonableness of the requested increase in revenues. Staff learned that the Picabo Livestock Company does not bill six (6) 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 (2) feed lots that are utilized for six months of the year. Staff has imputed revenues attributable to these water service connections as though they were billed for the service as independent customers of the Company.

The Application did not state the magnitude of the increased revenues that would be collected by the increase in rates. Staff has determined that, including the imputed Company owned service connections, there are thirty-one (31) residential service connections on the system and five (5) commercial service connections. The requested \$8.00 increase in all tariff rates would generate an increase in revenues of \$4,848 as shown on Attachment "A" to these comments, page 2, lines 7 – 12. The increased revenues would represent an increase of 56% in gross revenue for the Company.

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 land and livestock company for operation and maintenance of the water system. 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 has analyzed all the direct expenses recorded by the Company and has separated the expenses into appropriate categories as shown on page 1 of Attachment A, lines 2 through 13. This schedule is an income statement that includes an analysis of cash flow. The actual operating results for the water system are shown in Column (A) and reflect a net loss and negative cash flow for the year 2002. The livestock operation has absorbed this loss and negative cash flow. Columns (B) and (C) are adjustments to revenue to recognize the unbilled company owned services discussed earlier and to annualize the revenue that would be collected if the year-end customers were connected and billed for the entire year. This is a conservative approach to analyzing the reasonableness of the requested increase in rates. Due to vacancies and seasonal disconnects the Company probably would not collect the annualized revenue shown here. Even with this conservative approach, the Company with its current rates would still operate at a loss and realize negative cash flow as depicted in Column (D). 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.

Staff does not believe the gross revenue increase the Company has requested is unreasonable. As stated earlier, there are no labor expenses reflected in the income statement on either an actual or a pro forma basis. Consequently, Staff supports the Company's requested annual revenue requirement of \$13,494.

Rate Design

The Company-proposed rate design spreads the increase evenly at an \$8.00 increase for all customer classes and seasonal uses. While the proposed rate design does collect the requested increase, the rate design causes residential customers to receive a greater percentage increase than commercial customers. Staff analysis (Attachment B) indicates that increasing all customers the

same dollar amount increases residential base rates by 57% while commercial customers 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. Staff recognizes the Company's desire to keep rates simple and proposes even dollar amount increases to the Company's flat rates based on the overall requested increase of 56%. Staff proposes the following rate design:

Customer Class	Number of Cust.	Months of Service	Existing Rates		Staff Proposal			
			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%

CONSUMER ISSUES

The Company willingly worked with Staff to bring customer information into compliance with Idaho Public Utilities Commission's Utility Customer Relations Rules (IDAPA 31.21.01) and Utility Customer Information Rules (IDAPA 31.21.02). Mr. Purdy understands Small Water Company Policies (IDAPA 31.36.01) apply to his system.

No customers attended the public workshop held in Picabo the evening of May 20, 2004. The Company provided to the Commission the one written comment it had received. The comment, humorous in nature, said water should be free. As of May 24, 2004, no other written comments have been received. It appears there is not a strong objection to the requested increase in rates.

The Company has an existing approved Special Provision \$15 charge for service made at the request of customers during times other than regular business hours. The Company would like to apply this \$15 charge whenever a customer requests that water be shut off or turned on so the customer can complete personal plumbing work. According to the Company, this situation has not yet occurred, but it suggests a change in the tariff to read: "A service charge of \$15.00 will apply for any service call made by the company at the request of customers." Staff supports this change however believes the tariff should read "A service charge of \$15.00 will apply for any shut-off

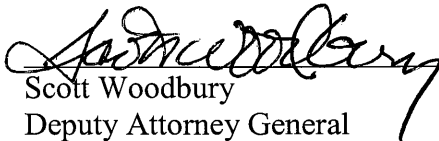
and/or turn-on made by the company at the request of customers for purposes other than involuntary disconnection.”

In the past, the Company has not disconnected service. The Company has no approved reconnection fee at this time and did not request one in its Application. However, the Company’s Rules Summary mentions the assessment of a fee. Staff recommends approval of a \$25 reconnection charge to help offset costs. A \$25 fee is reasonable and comparable with other reconnection charges the Commission has approved in the past. The Company indicates this amount is acceptable in the event the Company finds it necessary to use disconnection as a collection tool in the future. Staff recommends that the Company add a \$25 reconnection charge to its tariffs when new rates are filed.

STAFF RECOMMENDATION

1. Staff recommends the Commission establish an annual revenue requirement for Picabo of \$13,494 representing an increase of approximately 56% in the Company’s total revenues.
2. Staff recommends the Commission establish a more uniform percentage increase in tariff rates than proposed in the Application. Staff’s recommended rates are shown in the table on page 4 of these comments.
3. Staff recommends approval of a \$25 reconnection charge.
4. 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 customers for purposes other than involuntary disconnection.

Respectfully submitted this 28th day of May 2004.



Scott Woodbury
Deputy Attorney General

Technical Staff: Bob Smith
Michael Fuss
Marge Maxwell

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**Picabo Water Co.
Case No. PIC-W-04-01
Request for Increase in Rates**

Income Statement and Cash Flow						
	(A)	(B)	(C)	(D)	(E)	(F)
	Actual	Impute Unbilled Revenue	Annualize for Year-end Customers	Adjusted Actual	Proposed Rate Adjustment	Proforma Actual Proposed
1 Revenue	\$ 6,182.85	\$ 1,728.00	\$ 681.15	\$ 8,592.00	\$ 4,848.00	\$ 13,440.00
Expenses						
2 Labor Expense	\$ -		\$ -	\$ -	\$ -	\$ -
3 Electric Power	4,413.06		4,413.06	4,413.06		4,413.06
4 Water Testing	733.50		733.50	733.50		733.50
5 Chemical Expense Accrual	25.38		25.38	25.38		25.38
6 Water Resources	200.00		200.00	200.00		200.00
7 DEQ Fee	100.00		100.00	100.00		100.00
8 PUC Fee	50.00		50.00	50.00		50.00
9 Prof License (Water Operator Certification)	30.00		30.00	30.00		30.00
10 Professional Services (Brockway Engineering)	295.00		295.00	295.00		295.00
11 Year-end Electric Expense accrual	288.61		288.61	288.61		288.61
12 Refund (State of Idaho????)	(55.00)		(55.00)	(55.00)		(55.00)
13 Depreciation Expense	4,383.00		4,383.00	4,383.00		4,383.00
14 Total Expenses	\$ 10,463.55	\$ -	\$ 10,463.55	\$ 10,463.55	\$ -	\$ 10,463.55
15 Net Operating Income	\$ (4,280.70)	\$ 1,728.00	\$ (1,871.55)	\$ (1,871.55)	\$ 4,848.00	\$ 2,976.45
16 Interest Expense	\$ 2,191.00		\$ 2,191.00	\$ 2,191.00		\$ 2,191.00
17 Net Income	\$ (6,471.70)	\$ 1,728.00	\$ (4,062.55)	\$ (4,062.55)	\$ 4,848.00	\$ 785.45
18 Add Back Depreciation (Non-cash Exp)	\$ 4,383.00		\$ 4,383.00	\$ 4,383.00		\$ 4,383.00
19 Deduct Loan Principal Pmnt	\$ (2,850.38)		\$ (2,850.38)	\$ (2,850.38)		\$ (2,850.38)
Net Cash Flow	\$ (4,939.08)		\$ (2,529.93)	\$ (2,529.93)		\$ 2,318.07

**Picabo Water Co.
Case No. PIC-W-04-01
Request for Increase in Rates**

1	Plant in Service	\$	63,800.00
2	Accumulated Depr	\$	33,003.00
3	Net Plant in Service	\$	<u>30,797.00</u>

Imputed Unbilled Revenue			
4	6 Homes @ \$14 x 12 Months	\$	1,008.00
5	6 Homes @ \$12 x 6 Months (Irrig)		432.00
6	2 Feed Lots @ \$24 for 6 Months		288.00
		\$	<u>1,728.00</u>

Proforma Revenue from Rate Increase			
7	31 Residential Customers @ \$8 x 12 Months	\$	2,976.00
8	31 Residential Customers @ \$8 x 6 Months (Irrig)		1,488.00
9	3 Commercial Customers @ 8 x 12 Months		288.00
10	2 Commercial @ \$8 x 6 Months (Feed Lots)		96.00
11	Note: No Commercial Irrigation Customers		-
12	Total Revenue from New Rates	\$	<u>4,848.00</u>

Effect of Company Proposed Rate Increase					
13	Residential Existing Rate	Monthly Base Rate	Winter	Monthly Base & Irrig. Summer	Annually
14	Residential Proposed	\$	14.00	\$ 26.00	\$ 240.00
15	Percent Change	\$	22.00	\$ 42.00	\$ 384.00
			57%	62%	60%
16	Commercial Existing	\$	24.00	\$ 24.00	\$ 288.00
17	Commercial Proposed	\$	32.00	\$ 32.00	\$ 384.00
18			33%	33%	33%

Staff Rate Analysis
 Picabo Water Company
 PIC-W-04-01

Customer Class	Number Cust.	Months of Service	Existing Rates		Company Request		Staff Proposal			
			Current Rates \$/Mo	Total Current Rate Revenue	Req. Rates \$/Mo.	Requested Rate Revenue	Staff Prop. Rates \$/Mo.	Staff Prop. Rate Revenue	Percent Increase	Percent Increase
Residential Domestic	31	12	\$ 14.00	\$ 5,208.00	\$ 22.00	\$ 8,184.00	\$ 22.00	\$ 8,184.00	57%	57%
Residential Irrigation	31	6	\$ 12.00	\$ 2,232.00	\$ 20.00	\$ 3,720.00	\$ 19.00	\$ 3,534.00	67%	58%
Commercial Domestic	3	12	\$ 24.00	\$ 864.00	\$ 32.00	\$ 1,152.00	\$ 37.00	\$ 1,332.00	33%	54%
Commercial Irrigation	0	6	\$ 21.00	\$ -	\$ 29.00	\$ -	\$ 33.00	\$ -	38%	57%
Commercial / Feed Lot	2	6	\$ 24.00	\$ 288.00	\$ 32.00	\$ 384.00	\$ 37.00	\$ 444.00	33%	54%
Total				\$ 8,592.00		\$ 13,440.00		\$ 13,494.00	56%	57%

Audited Interest, Expenses & Depreciation

\$ 12,654.55

\$ 12,654.55

\$ 12,654.55

Contribution to Labor & Profit

\$ 839.45

\$ 785.45

\$ (4,062.55)

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 28TH DAY OF MAY 2004,
SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE
NO. PIC-W-04-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE
FOLLOWING:

NICK PURDY
PICABO LIVESTOCK CO INC
PO BOX 688
PICABO ID 83348



SECRETARY