DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: SCOTT WOODBURY

DATE: JUNE 10, 2004

RE: CASE NO. PIC-W-04-1 (Picabo Water)
APPLICATION TO INCREASE RATES AND CHARGES

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 at an un-metered flat rate. 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 $456. 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 water rates. This increase would equate to an annual water charge for residential customers of $336 and for commercial customers of $552.

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 that "Water should be free. As a matter of fact...Everything should be free." Based on its review of the Company's financial records Staff supports the Company-requested and Staff-calculated annual revenue requirement of $13,494, an increase of approximately 56% in the Company's total revenues.

Staff believes that a rate design based on a more uniform percentage increase to all customer classes is more appropriate than the Company 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%. Staff recommends approval of a $25 Reconnection Charge and 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.

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. The Company requested increase in all tariffed water rates would generate an increase in gross revenues for the Company of $4,848, or 56%.

Accounting for the water system operation is rolled into the financial records of the Picabo Livestock Company. Only two accounts are utilize 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 as depicted on Staff Comments, page 1 of Attachment A, lines 2-13 (attached). This schedule is an income statement that includes an analysis of cash flow. The actual operating results for the water system reflect a net loss and negative cash flow for the year 2002. 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 gross revenue increase the Company has requested is unreasonable.

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. Staff proposes the following rate design:

			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%

Staff notes that the Company willingly worked with Staff to bring customer information into compliance with the Commission's Utility Customer Relations Rules (IDAPA 31.21.01) and Utility Customer Information Rules (IDAPA 31.21.02). Staff represents that the Company's manager, Mr. Nick Purdy, understands that the Commission's small water company policies (IDAPA 31.36.01) apply to the Picabo water system.

COMMISSION DECISION

Staff recommends that the Commission establish an annual revenue requirement for Picabo of $13,494, representing an increase of approximately of 56% in the Company's total revenues. Staff notes that the revenue requirement includes no labor or management expense. Staff recommends rates that establish a more uniform percentage increase than the $8.00 per customer increase recommended by the Company in its Application The Company concurs with Staff's recommended rate design. Staff recommends approval of a $25 Reconnection Charge and a $15 Special Provision Charge to be assessed for customer-requested shut-offs and/or turn-ons. The Company has requested an effective date of July 1, 2004.

Does the Commission find it reasonable to approve the Staff-calculated revenue requirement and proposed rate design? Does the Commission also find the Staff proposed $25 Reconnection Charge and change to the Company's Special Provision Charge tariff language reasonable and acceptable? Does the Commission find it reasonable to approve the changes in rates, charges and tariffs for an effective date of July 1, 2004?

Scott Woodbury

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