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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)	
SPIRIT LAKE EAST WATER COMPANY FOR)	CASE NO. SPL-W-13-01
AUTHORITY TO INCREASE ITS RATES AND)	
CHARGES FOR WATER SERVICE.)	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 April 10, 2013, Order No. 32783, submits the following comments.

BACKGROUND

On March 5, 2013, Spirit Lake East Water Company ("Spirit Lake" or "Company") filed an Application for authority to increase its total revenue by \$77,544, or 106%. The Company is proposing to increase its base rate for water service from \$12.50 to approximately \$24.75 per month for usage up to 9,000 gallons per month. The Company does not propose any change of the commodity charge presently set at \$0.12 per 100 gallons consumed for all usage above 9,000 gallons for each month.

Spirit Lake also requests authority to change its meter reading and billing procedure from a quarterly to monthly schedule. The Company asserts that more frequent meter reading and billing

has been requested by many of the Company's customers and the Company believes that it would be in the best interest of the public to convert to a monthly billing program.

STAFF ANALYSIS

Change of Company Ownership and Management

Since the Company filed its last general rate case in 2006 (Case No. SPL-W-06-01), ownership and management of the Company has changed. In 2009, Leslie Abrams became the new registered agent and President of Spirit Lake with an office in Coeur d'Alene, Idaho. Prior to purchasing the assets of the Company, Leslie Abrams' other company, Water Works, Inc., provided contract services to Spirit Lake. Water Works continues to provide contract services to the Company. These services include but not limited to the following:

- Act as primary and secondary water system operator
- Make monthly site visits which include recording pump and flow readings, monitoring performance of well and reservoir, etc.
- Perform end of line flushing two times annually
- Test the pressure tanks, quarterly testing
- Prepare the Consumer Confidence Report
- Administer the Cross Connection Control Program
- Provide 24-hour on-call service

System Description

Spirit Lake serves two communities in rural Kootenai and Bonner Counties. The larger community, Spirit Lake is located in Kootenai County. This is a private community with wooded, variable terrain lots, from 10 acres to 15 acres in size. The second community, Treeport, is a private aviation community located in Bonner County. Treeport consists of generally open lots, approximately five acres in size.

Spirit Lake water system currently has one production well equipped with a submersible pump with a design capacity of 500 gpm and a 100-hp electric motor. Groundwater is pumped to an above-ground 200,000-gallon concrete reservoir. Water is delivered from the reservoir to the mains and distribution systems using three booster pumps with a combined capacity of approximately 1,000 gpm (total of 45-hp). The facility is equipped with 10 hydro-pneumatic tanks to supply water during low demand and to reduce frequent pump cycling. The system is also

equipped with a back-up 175-kilowatt diesel generator on site to provide power to the well and the booster pumps in the event of power outage.

The distribution network is comprised of various pipe sizes ranging from 2-inch to 10-inch of mostly PVC pipes. Water is delivered to various residential customers using mostly manual-read meters. A few old model remote-read meters were also installed at sites where obstructions obscured the meters. All customer meters are 1-inch in size. Approximately 90% of the meters register water usage in cubic feet and 10% register in gallons. As the Company replaces defective meters, it installs meters that register in cubic feet.

The Company currently serves 288 full-time residential customers. Only two additional customers were added since the Company's general rate case filed in 2006. The Company states that there are 55 lots remaining at the Spirit Lake and Treeport subdivisions which are not connected to the water system. The Company anticipates one customer hook-up per year.

Previous System Problems and Improvements

A 2004 engineering report identified several system deficiencies and recommended major investments to improve the water system and bring it to compliance with Idaho Department of Environmental Quality (DEQ) regulations. A sanitary survey conducted by DEQ in November 2005 also identified numerous system deficiencies. On June 5, 2007, a Consent Order was signed between DEQ and the Spirit Lake directing the Company to comply with water system deficiencies. The Consent Order required the Company to develop and submit to DEQ a detailed Public Water System Corrective Action Plan which includes, but not limited to:

- The installation of backup generator capable of running the submersible well pump and the three water pumps used to pressurize the water distribution system.
- The development and implementation of a maintenance program to ensure that the generator and all associated equipment is taken care of appropriately.
- A detailed plan and schedule to evaluate and address any and all deficiencies associated with the electrical and pumping systems.
- A detailed plan and schedule for conducting a leak detection survey providing written survey results to the DEQ which, at a minimum, identify the location and estimated intensity of all leaks detected.
- A plan and schedule to repair the reservoir roof to ensure that the roof is water tight, that ponding of water is eliminated, and that the roof is sloped so that water drains off the surface.

In addition to the DEQ Consent Order, the Commission also directed Spirit Lake to provide a written plan to the Commission to install a new generator and to address the system leaks. Order No. 30279. The Company was further ordered by the Commission¹ to file a detailed written plan and schedule showing start and completion dates, demonstrating commitment to install a new generator and address system leaks as previously directed by the Commission in Order No. 30279.

The Company completed the various tasks contained in the June 5, 2007 Consent Order and subsequently received a notice from DEQ on November 7, 2008 indicating that the requirements of the Consent Order have been met by the Company, and finally terminating the Consent Order.² Similarly, the Company also submitted a Status Report to the Commission on December 12, 2008 in compliance with the Commission Order Nos. 30279 and 30315.

Based on the information submitted by the Company as part of the Application, the following investments were reported since the last general rate case filed by the Company in 2006:

Major Categories	Cost (\$)
Electrical and pump controls	\$ 84,091
Back-up generator	\$ 78,231
Reservoir	\$ 46,952
Main/distribution system leaks	\$ 34,823
Maintenance equipment	\$ 24,981
Other miscellaneous investments	\$ 28,384
Total Cost	\$297,462

The major investments made by Spirit Lake in order to meet the requirements of the Consent Order and additional capital expenditures are discussed further in detail in the Staff Comments section on Addition to Plant in Service.

Staff Audit

Spirit Lake reports to the Idaho Public Utilities Commission using accrual accounting and a Fiscal Year End (FYE) of October 31. Routine financial controls such as budgets are not currently used and normal reconciliations were not available. Ms. Abrams stated she is not an accountant or familiar with regulatory accounting standards. She also stated the current accounting software has problems. She is contemplating hiring bookkeeping services.

¹ Commission Order No. 30315, Case No. SPL-W-06-01.

² On November 18, 2008, DEQ also notified the Company of the re-approval of Spirit Lake East Water Company as a public water system (PWS ID1280176) under DEQ's authorities.

Staff notes this was the first audit Ms. Abrams has experienced with the Idaho Public Utilities Commission. Consequently, Ms. Abrams is not familiar with the documentation requirements to demonstrate actual cost. Anticipated costs, standard costs, and similar projections have specific uses but are not actual costs. Staff encourages Ms. Abrams to contact the Commission Staff for guidance in assembling documentation and reporting actual costs for future audits. Staff recommends the Company begin preparing budgets and performing monthly reconciliations for future audits. Generally, Staff found documentation and recording of Plant in Service transactions to be adequate.

Spirit Lake received its CPCN in 1983. Ms. Abrams identified the near term need to begin replacing all remaining customer meters. Staff notes Ms. Abrams statement is consistent with the average expected useful life of meters. Staff believes the advancing age of the existing infrastructure will necessitate future replacement of Plant in Service. Ms. Abrams also expressed a preference for establishing an Operating Reserve for future additions or replacements, using a self funded sinking fund arrangement. Ms. Abrams cited the previous cost of pump replacement including the need for a special crane, as one potential need. Staff strongly encourages Ms. Abrams to begin this sinking fund as soon as possible. Preparing Capital Expenditure budgets are the first step. They identify the purpose, timing and amount of capital needed. Water rates include amounts for cash operating expenses, depreciation expense and a return on investment. Depreciation is not a cash expense. It is a return of investment. Saving an amount equal to Depreciation Expense does not use the portion of cash included for operating expenses. Therefore, the amount for depreciation is the natural portion to set aside for the sinking fund. Also, Ms. Abrams can add a selected portion of the return on investment. The reported pump and motor replacement in July 2013 demonstrates the prudence of establishing this sinking fund. Ms. Abrams is encouraged to contact Staff for further assistance.

Summary Schedule of Adjustments

Staff has prepared Attachment A as the Summary Schedule of Adjustments that includes the Company's request and Staff's recommended adjustments. This schedule includes additional Company expenses that are not included in the operating expenses. These additional expenses to be discussed later are depreciation expense, Idaho Public Utilities' fee, property taxes, DEQ fee, and state and federal income taxes.

Additions to Plant in Service

Most of the additions considered in this audit are those required by the Idaho Department of Environmental Quality. Others, such as replacement of meters, are symptomatic of the advanced age of this system. Asset Detail Reports showed additions to Plant in Service totaling \$289,747. Staff's analysis of these Asset Detail Reports also shows Spirit Lake reported asset values and classifications, depreciation methods and capitalization conventions, used for Income Tax reporting purposes. Staff's adjustments reflect the differences between Income Tax reporting and regulatory accounting methods.

Staff's audit of the supporting documentation shows the yearly reported totals did not include all costs due to timing differences. This is not unusual for construction projects. These timing differences arise primarily when services were provided on one date and were invoiced later. When this time difference bridged more than one Fiscal Year, the Company reported known additions at the end of the Fiscal Year. Invoices arriving after the end of the Fiscal Year were reported in subsequent fiscal years. These are part of Staff's discussion and adjustments below.

2006: The Asset Detail Reports for the FYE 2006 reported six categories of additions to Plant in Service totaling \$23,964. Three of these totaling \$5,892 were included in Order No. 30279 for the previous rate case, Case No. SPL-W-06-01. These include \$1,048 for Purification Systems, \$2,400 for accounting software reported as Office Furniture and Equipment, plus \$2,444 reported as Other Tangible Property. Staff removed \$456 for a metal detector no longer in service. Staff excludes reported additions for improvements to the Reservoir tank, pressure bladders and Mains totaling \$15,789, for Plant in Service due to lack of documentation.

Miscellaneous Equipment: A sign invoiced for \$1,827 was observed by Staff at the well lot and capitalized for the amount of \$1,827.

Staff additions to Plant in Service for the FYE 2006 totaled \$1,827.

2007: The Asset Detail Reports for the FYE 2007 reported additions to Plant in Service totaling \$81,663.

Reservoir: Additions were reported totaling \$39,818. Documentation provided supports an increase of \$930, totaling \$40,748. This includes project management fees, County permits, and payments to the contractor. The documentation shows the down payment was made on October 18, 2007, 13 days before the end of the Fiscal Year. Building permits were issued in November 2007, with engineering services provided during October through December 2007. This timing indicates

the addition was not placed in service during Fiscal Year 2007, but in the FYE 2008. Staff capitalized this addition in Fiscal Year 2008.

Pump Motor: Staff's examination shows the reported amount \$7,022, did not include the invoiced purchase price with shipping charges totaling \$8,653, a difference of \$1,631. The original motor was fully depreciated when it was retired. No adjustment for the retirement is required. Staff capitalized pumping equipment equaling \$8,653.

Leak Detection: This category was reported as \$34,823. Staff's examination shows documentation supports a total of \$36,582, a difference of \$1,759. These charges include valve location and valve exercising, labor, mileage, leak notices, and a valve survey. Staff believes the long term useful life of the water delivery system will be benefited by the resulting improvements. Staff capitalized Leak Detection Services totaling \$36,582.

Other Tangible Equipment: Among the timing differences are General Engineering services. Staff analysis of the documentation shows charges for engineering analysis and supervision. Normally such charges are part of the total project costs which are capitalized. Staff identified certain charges which appeared to be wholly or primarily associated with specific projects. These were reclassified to those projects so that depreciation expense would more closely match the expected benefit period of the specific improvement. The remaining items were capitalized as Other Tangible Equipment totaling \$10,563.

Additions to Plant in Service for the FYE 2007 totaled \$55,798.

2008: Asset Detail Reports for the FYE 2008 reported additions totaling \$151,469. The documentation provided, supported a different total due to timing differences.

Reservoir: Additions to Plant in Service began in 2007 but completed in FYE 2008 for the Reservoir tank, discussed above, were capitalized totaling \$40,748.

Structures and Improvements: Spirit Lake reported capitalized Electrical Plant in Service totaling \$86,914. Documentation supports engineering services, labor, mileage and materials totaling \$86,914.

Power Generator: The generator sits on a concrete pad within the security fence of the well lot. The generator has a metal enclosure with locking doors. The identification plate shows the generator to be a Caterpillar, Model D150-8, rated at 480 Volts, 226 Amps. Staff analyzed the Generator Log for the calendar year 2011, showing the generator was tested weekly and run beyond the weekly test period requirements. The analysis shows the generator provided backup electrical

power to the pump house nearly every month. Staff's analysis of the documentation shows the purchase and installation of the Generator totaled \$59,421.

Staff's additions to Plant in Service for the FYE 2008 totaled \$187,083.

2009: The Asset Detail Reports for the FYE 2009 show three additions totaling \$27,597.

Office Furniture and Equipment: Staff's examination of the documentation showed a printer-scanner was purchased for \$665. The purchase price was not added to Plant in Service because it was replaced in less than one year.

Communications Equipment: A replacement auto-dialer was purchased for \$1,951. The original was not fully depreciated. Adjustments to the plant account and to Accumulated Depreciation are required for this retirement. Staff capitalized \$1,951.

Power Operated Equipment: Documentation shows a backhoe was purchased from a related party for \$24,981. The backhoe is used for repairs and light construction and appears to meet the needs of the water system. Staff tested the prudence of this purchase by comparing the total annual cost to current rental rates for an equivalent model. Considering the distance to rental companies, availability and transportation costs, Staff believes the cost is prudent and the \$24,981 is properly capitalized. Staff encourages the Company to keep a log identifying the project it was used on and hour meter readings to facilitate maintenance and document the machine's use for future audits.

Transportation Equipment: Equipment listing in the Plant in Service at \$5,001 was not found. Staff removed this from Plant in Service. No depreciation adjustment is required.

Total additions to Plant in Service for the FYE 2009 total \$26,932.

2010: Asset Detail Reports, for the FYE 2010, showed additions totaling \$3,111.

Meters: The Company reported additions totaling \$1,524. These were not added to Plant in Service due to lack of documentation.

Office Furniture and Equipment: Documentation supported the reported additions to office equipment consisting of a laptop computer for \$1,163 and a replacement printer-scanner for \$424, totaling \$1,587. Staff capitalized Office Equipment totaling \$1,587.

Staff's additions to Plant in Service for the FYE 2010 total \$1,587.

2011: The Asset Detail Reports listed additions totaling \$1,943.

Office Furniture and Equipment: Ms. Abrams stated the Laptop computer purchased for \$1,163 was declared unfixable. Staff removed it from Plant in Service and Depreciation.

Meters: Documentation supports Meters totaling \$1,943. These were used to replace older meters. The older meters were fully depreciated; no retirement adjustment is needed.

All additions to Plant in Service for the FYE 2011 total \$1,943.

Attachment B shows the details of additions to Plant in Service totaling \$1,216,107.

Depreciation Expense: The Company reported Depreciation expense using Income Tax depreciation methods. These methods include accelerated depreciation and shorter lives than used in rate setting. Staff recommended annual depreciation expense for the FYE 2011 of \$20,395 shown in Attachment C.

Accumulated Depreciation: Staff adjusted the Accumulated Depreciation for additions and retirements as shown in Attachment D. Staff recommends Accumulated Depreciation of \$840,577 as the proper rate base deduction.

Materials & Supplies Inventory: This inventory includes a pump and motor for the well. The pump and motor is required by the Idaho Department of Environmental Quality, because this pump is not stocked locally. The previous failure of this pump and motor required a wait for shipping before it could be replaced. This wait resulted in a multi-day period without water. In addition, the depth of the well and the weight of the pump and motor combination requires a truck mounted crane to remove and replace the pump and motor. Staff notes the existing operating pump reportedly failed on the weekend of July 27, 2013. The pump and motor in inventory was used to replace the previous pump and motor.

Total Rate Base

Total Rate Base consists of Plant in Service equaling \$1,216,107 less Accumulated Depreciation of \$840,577 less Contributions in Aid of Construction of \$70,050, equals a Net Plant in Service of \$305,480. Net Plant in Service of \$305,480 plus a Material and Supplies Inventory of \$12,291 plus Working Capital of \$9,263, results in a Total Rate Base equaling \$327,034.

Revenues

Staff investigated accounts receivables and revenues. There is evidence the Company is using proper collection procedures up to and including discontinuing water service. The only write offs in the test year were attributed to the Company's policy of forgiving half of the consumption charge on leaks that were repaired in a timely manner. Staff accepts the Company's bad debt calculation of 0.5%.

The Company's Application included \$2,500 in connection fees. This reflects past history and the Company expects to add one new customer per year. Therefore, Staff accepts the reported revenues.

Operating Expenses

The Company claimed annual operating expenses in the amount of \$87,275. Based upon the Staff Audit of the Company's financial records and its operation, Staff recommends including \$72,289 for annual expenses. Attachment A reflects the Staff adjustments to operating expenses. Each expense adjustment is individually discussed below.

Adjustment No. 4 – Rental Expense

In the test year, the Company was renting a shop that also included an office. In 2012, the Company ended the lease, and moved the larger equipment to the pump house and rented an office in Coeur d'Alene. Staff recommends removing the costs relating to the shop and including the current expenses relating to the office. The shop rent of \$1,200 per month totaling \$14,400 per year was removed. Power expenses of \$797 plus \$697 in Miscellaneous Expenses that reimbursed Water Works Inc. for power expenses for the operation of the shop were also removed. The current office has a monthly lease of \$235 per month with a fee of \$30 for internet and \$30 for utility and maintenance. The net of these adjustments decreases Purchased Power Expense by \$797, decreases Rental Expense by \$10,860, and decreases Miscellaneous Expense by \$697. (See Attachment E)

Adjustment No. 5 – Telephone Expense

When the Company moved its office from the shop to the rented office, it also eliminated its dedicated telephone line and instead went to an online service called Ring Central. The Company was able to maintain the same phone number and uses an email service to record messages left for a return call by the Company. Staff recommends decreasing Phone Expense by \$1,241. (See Attachment F)

Adjustment No. 4 – Related Party Labor Expense

Nearly all customer-related labor was performed by contract with Water Works Inc. Leslie Abrams is an officer for Water Works Inc. as well as owner of Spirit Lake. These services are with an affiliated party and, therefore the expenses invoiced by Water Works received a higher level of

scrutiny by Staff. Staff used invoices from Water Works Inc. to the Company to recreate the number of hours worked in a variety of categories. These categories of labor were then compared to wages reported by the Idaho Department of Labor's Idaho Occupational Employment and Wage Release 2012. Because the cost of labor includes more than just wages paid to the employee (employment taxes, insurance, etc.), Staff used the high end of the middle category to calculate the cost of labor for each category. In addition, travel was included in the cost of labor by calculating the number of trips required for each category then using the time required for travel as well as the IRS mileage reimbursement for distance travelled. This resulted in the Staff recommended cost of labor for each category. The Company reported \$1,364 worth of labor that was not invoiced by Water Works Inc. and therefore was not subject to this adjustment. (See Attachment G)

As a result of this analysis Staff recommends a net overall decrease in labor expenses of \$4,811. This represents a shift in labor categories by increasing Operations and Management Labor Expense by \$9,777 and decreasing the cost of Administration and Management Labor Expense by \$14,587.

Adjustment No. 5 – Fuel for Power Production Expense

In the audit of the Company's books, Staff discovered that the Company had included the costs of fuel for the onsite generator in the Transportation Fuel Expense. Staff recommends transferring \$1,788 from Transportation Fuel Expense to Fuel for Power Production. This does not constitute an adjustment to Revenue Requirement.

Adjustment No. 6 – Water Testing Expense

The Company proposed water testing expense of \$975. Different testing cycles for various regulated water contaminants are required by DEQ; hence, it is common practice and necessary to normalize water testing costs over several years. In consultation with DEQ, a complete list of required tests was developed by Staff with water testing cycle of nine years. The cost of nitrate test was not included in the Company's spreadsheet; therefore, Staff included the cost of nitrite testing every nine years and calculated the annualized water testing cost to be \$670. Attachment H shows the required water quality tests for water contaminants and the annualized water testing costs. Staff recommends reducing the test year water testing cost by \$305 (\$975 - \$670) to reflect normalized levels.

Adjustment No. 7 - Purchased Power Expenses

The Company claims an annual purchased power cost of \$18,270 during the test year. This cost comprises about 21 percent of the operating expenses and the second largest annual operating expense incurred by the Company. Staff believes it would be more appropriate to normalize the test year purchased power expense based on average volume of water pumped. The cost of purchased power is affected by the volume of water pumped and the power rates applied during the time of use. Staff calculated the normalized annual purchase power expense by first deriving the current power cost of pumping water per unit volume of water pumped (i.e. \$ per 1,000 gallons) and applying this rate to the three-year total annual average volume of water pumped (2010, 2011, 2012). Staff calculated the normalized cost of purchased power to be \$17,932 per year. Staff recommends that the test year purchased power cost be reduced by \$338. See Attachment I for detailed calculation of the normalized purchased power cost.

Adjustment No. 10 – Change to Monthly Billing

Staff concurs with the Company's proposal to change the billing cycle from a quarterly cycle to a monthly cycle. This will increase O and M Labor Expense by \$3,034 and Administrative and Management Labor Expense by \$2,002. (See Attachment J) This will be partially offset by a decrease in power expense of \$974 due to the better leak prevention that monthly meter reading will provide. Billing changes are discussed in more detail later in Staff comments under the section titled "Frequency of Meter Reading and Billing."

Insurance Expense

The Company recorded \$2,510 in Insurance Expense. In 2012, the Company discontinued its insurance policy. Staff does not propose an adjustment to this expense and instead urges the Company to retain a new insurance policy.

Adjustment No. 11 – Property Tax Expense

The Company did not include the Bonner County Property in the test year expenses. This is a recurring cost. Staff recommends adding \$101 in Property Tax Expense.

Adjustment No. 12 – Interest Expense and Capital Structure

Staff removed Interest Expense from the income statement net income calculation because interest expense is recovered in the revenue requirement through the return on capital as reflected in the capital structure calculation. Interest Expense is incurred on the loan for the back hoe and a line of credit that is used for the operating expenses. Staff has concerns related to the line of credit and does not believe a 21.9% interest rate even on unsecured short term debt would be prudently reflected in the capital structure and revenue requirement. The line of credit is not included in the capital structure by the Company. Staff believes this is appropriate because a 12% return on equity better reflects a prudent cost.

The Company's Application contained \$163,195 in equity and \$15,375 in long-term debt. In past small water cases the Commission has allowed a 12% return on equity. (See Case TRH-W-10-01, Order No. 32152 and BCS-W-09-02, Order No. 30970) The only long term debt is a loan for the back hoe at a stated 5.3% interest rate. The weighted average of these sources of capital is 11.42% return on rate base. (See Attachment K)

Income Statement

Staff recommends annual operating expenses of \$72,289 and other expenses of \$22,211. (See Attachment A, lines 16 and 23, respectively.) This is a decrease of \$14,986 and \$5,344 from the Company's Application, respectively. Based upon the financial information discussed above and shown on Attachment A, line 24, Staff calculated that the Company has an annual net loss of \$21,630.

Revenue Requirement

Attachment L, page 1, reflects the Staff recommended revenue requirement. Staff calculated the revenues associated with the return on rate base in the amount of \$37,358 ($\$327,034 \times 11.42\%$). Of this revenue, \$1,492 (line 7) reflects interest on the debt that is a deduction for tax purposes. The remaining \$35,865 (line 9) is subject to taxes on both a federal and state level. The process of increasing the revenue requirement for tax effects is called "grossing-up." The net to gross multiplier calculation of 128.81% is the percentage that must be applied to the \$35,865 to determine amount that must be collected in rates to allow the Company an opportunity to earn the overall 11.42% rate of return. The grossed up return on equity is added to the net loss of \$21,630 and the

\$1,492 related to debt portion of the capital calculation, resulting in the Staff recommended income deficiency of \$69,321 (line 12).

The Company also requested recovery of rate case expenses. Staff believes the \$4,000 amount amortized over three years for an annual amount of \$1,333 is reasonable.

This results in a total revenue requirement of \$143,525 (Attachment L, page 1, line 17) and a revenue deficiency of \$70,655. (See Attachment L, page 1, line 15)

The detailed calculations for the Staff recommended Rate Base of \$327,034 on Attachment L, page 1, line 1, are shown on Attachment L, page 2, lines 1-7. The Working Capital calculation is shown on page 2, lines 11-18.

RATE DESIGN

The Company's current rate structure consists of a base rate or minimum customer charge of \$12.50 per month with volume allowance of 9,000 gallons and a commodity charge of \$0.12 for each additional 100 gallons (or \$1.20 per 1,000 gallons). Spirit Lake is proposing to raise the base rate from \$12.50 per month to \$24.75 per month for the first 9,000 gallons, an increase of 98 percent.³ The Company is not proposing to increase the commodity charge of \$0.12 per 100 gallons. The Company proposes to maintain the minimum charge volume allowance of 9,000 gallons per month. The current and Company proposed rate design is summarized below:

RESIDENTIAL CUSTOMERS	EXISTING RATES	COMPANY PROPOSAL	PERCENT INCREASE
Min. Customer Charge	\$12.5	\$24.75	98.0%
Volume Allowance	9,000 gallons	9,000 gallons	No change
Commodity Charge	\$0.12 per 100 gals.	\$0.12 per 100 gals.	No change

Staff believes it is appropriate to maintain the single block rate design with a minimum charge volume allowance. Most of the small water utilities regulated by the Commission have been operating for decades with this rate structure because it is simple, easy to implement and understand.⁴ This type of rate design also encourages conservation because the more water a customer uses the more he has to pay as compared to a flat rate design.

There are no set policies in establishing the base charge or minimum customer charge in designing rates for small water utilities regulated by the Commission. The primary objective is to

³ Spirit Lake erroneously stated in its Application (page 1) a 106 percent increase in base rate from \$12.50 to \$24.75.

⁴ Out of the 27 small water utilities regulated by the Commission, 15 small utilities (56%) have single block rate design.

design rates and charges that generate the recommended revenue requirement. A rate design with a high fixed charge may provide more stable revenues for a small water utility company. However, it may also reduce the conservation incentive provided by the commodity charge. Therefore, Staff strives to balance the conservation incentive of a commodity charge with a minimum customer charge that reasonably meets monthly cash flow requirements of the Company.

Staff does not support the Company's rate design proposal because it would apply the entire increase to the minimum customer charge without increasing the commodity charge or changing the volume allowance. The Company's proposed rate design does not promote conservation, nor does it allow customers who consistently practice conservation to reduce their monthly bill.

Volume Allowance for Base Charge

The Company does not propose a change in the minimum charge volume allowance of 9,000 gallons per month. Staff acknowledges that the 9,000 gallon minimum charge volume allowance has been in place since the Commission set the Company's first tariff in 1983.

The Commission does not have a written policy on setting the minimum customer charge volume allowance in rate design for small water companies. It deals with this issue on a case-by-case basis. For example in Case No. DIA-W-07-01, the Commission addressed the monthly volume allowance issue and stated:

...Some customers recommended increasing the monthly allowance of water to as much as 10,000 gallons per month, others recommended reducing it to as little as 0. Staff reasoning in lowering the base monthly amount of water allowance is appealing; however, we believe the reduction from 7,500 to 4,000 per month goes too far. Instead, we find that the monthly allowance should be 5,500 gallons **which coincides with the average winter usage which can be considered "minimum."** (Emphasis added.)

Commission Order No. 30455.

Similarly, in a recent case (Case No. TRH-W-10-01) the Commission accepted Staff's recommendation of using the average winter usage in establishing the monthly volume allowance for the minimum customer charge.

To promote water conservation, Staff has also been advocating the concept of bringing the minimum charge volume allowance to a level that approaches the Company's average winter monthly usage if the current allowance significantly exceeds average winter usage per customer. Staff believes that the conservation element should be emphasized in the rate design for this case

because of the increasing trend in water use per customer. Water-use data provided by the Company for the last three years (2010, 2011 and 2012) and 2005 data from the last rate case⁵ indicate an increasing trend from 114,525 gallons to 153,183 gallons per customer per year. See Attachment M.

Staff conducted an analysis to determine whether the current level of volume allowance is appropriate. The Company provided Staff with three years of water use data from calendar year 2010 to 2012. Monthly readings were not available, but meter readings were completed (quarterly) when the weather allowed the Company to read meters.⁶ Only a single 6-month meter reading of water use data from October 2009 to March 2010 was available so the average winter water usage per month was calculated by dividing the total six months of usage by six months and the total number of customers during that period. The average winter usage per residential customer was approximately 5,314 gallons per month per customer. Rounding the average winter usage to the next thousand-gallon unit, Staff recommends that the monthly volume allowance be reduced from 9,000 gallons to 6,000 gallons.

Rate Design Options

Staff investigated two rate design options before selecting the 6,000 gallon allowance. Option 1 maintains the current minimum charge volume allowance of 9,000 gallons, and Option 2 reduces the volume allowance to 6,000 gallons per month, an amount close to the average minimum winter usage as discussed above.

As indicated previously, Staff's recommended test year revenue requirement for the Company is \$143,525. The expected revenues for water utilities can be affected by many things and one of the primary factors is the weather. It is a traditional practice in rate design to use normalized water usage rather than a single year or test year usage to estimate expected revenues to meet the Staff's recommended revenue requirement. To assure that the Staff's rate design options meet the recommended revenue requirement, it was necessary to determine the normalized excess usage. The excess usage is the actual volume of water delivered to the customer in excess of the minimum charge volume allowance. This is the net volume where the commodity rate is applied during a billing cycle to obtain the commodity revenue. Staff calculated the normalized excess volume by analyzing individual water usage for each customer per billing period using three years

⁵ Case No. SPL-W-06-01.

⁶ The Company currently reads meter at the end of a quarterly billing cycle, beginning January 1, except when conditions make the meter inaccessible.

of data (2010, 2011 and 2012). A minimum charge volume allowance of 9,000 gallons per month or 27,000 gallons per 3-month (quarterly) billing period was used for Staff proposed Option1 rate design, and 6,000 gallons per month volume allowance or 18,000 gallons per 3-month billing period was used for Staff proposed Option 2. The normalized annual excess usage for Option 1 is 21,138,000 gallons. This is also the normalized excess volume used for the current rate and the Company proposal. The calculated normalized annual excess volume for Option 2 is 25,140,000 gallons.

Using Staff's proposed revenue requirement of \$143,525, Staff calculated the appropriate base charge, customer charge and estimated revenues for the existing, Company proposed and Staff Options 1 and 2 rate designs. They are presented in the table below.

Rate Design Parameters	Existing Rate Design	Company Rate Design Proposal	Staff Proposal Option 1	Staff Proposal Option 2
Volume Allowance (gallons)	9,000	9,000	9,000	6,000
Minimum Customer Charge (\$/mo)	\$ 12.50	\$ 24.75	\$ 25.75	\$ 25.25
Commodity Charge (\$/100 gallons)	\$ 0.12	\$ 0.12	\$ 0.258	\$ 0.224
Excess Usage (gallons)	21,138,000	21,138,000	21,138,000	25,140,000
Base Revenue (\$/year)	\$ 43,200	\$ 85,536	\$ 88,992	\$ 87,264
Commodity Revenue (\$/year)	\$ 25,366	\$ 25,366	\$ 54,536	\$ 56,314
Total Annual Revenue (\$/year)	\$ 68,566	\$ 110,902	\$ 143,528	\$ 143,578
Over/under Staff Rec. Rev. Reqt.	\$ (74,959)	\$ (32,623)	\$ 3	\$ 53

It should be noted from the table that the Company's rate design proposal would still produce a revenue deficiency of \$32,623 using the Staff's revenue requirement of \$143,525. If the Company's proposed revenue requirement is used (\$150,414), the Company proposed rate design produces an even larger revenue deficiency of about \$39,512. Consequently, rates must be higher than those proposed by the Company just to generate the lower revenue proposed by Staff.

Staff-Recommended Rate Design

Comparing the two rate design options analyzed by Staff, it is recommended that Option 2 (reduced volume allowance from 9,000 to 6,000 gallons) be implemented by the Company for several reasons. First, it would further promote conservation during the summer season when most customers are irrigating lawns and landscaping. Second, it would be more in line with the rate design guidelines recommended by the American Water Works Association of using winter time

usage of very small households as allowance for minimum customer charge.⁷ Third, this methodology for estimating reasonable minimum customer charge volume allowance is consistent with the method used by Staff and approved by the Commission in recent general rate cases for small water utilities. TRH-W-10-01, Order No. 32151; BCS-W-09-02, Order No. 31002; and FLS-W-09-01, Order No. 32022.

The recommended minimum customer charge for the Option 2 rate design is \$25.25 per month compared to \$12.50 per month for the current rate, an increase of \$12.75 or 102%. The recommended commodity charge is \$0.224 per 100 gallons with the 6,000 gallons volume allowance compared to \$0.12 per 100 gallons of usage with the volume allowance of 9,000 gallons for the current rate, an increase of \$0.104 per 100 gallons or 87%.

With the Staff recommended rate design (Option 2), the total revenue contributed by minimum customer charge is 61% and the revenue contributed by the commodity charge is 39%. See Attachment N for rate proof calculations. Staff believes that this rate design is reasonable and appropriate for Spirit Lake. With the current rates, approximately 63% of the total revenue is contributed by the minimum customer charge and 37% by the commodity charge. Staff believes that the minor decrease in percent contribution of the minimum customer charge from 63 to 61% is warranted to enhance the water conservation element in the rate design.

Typical Monthly Bill and Rate Impacts

Based on Staff's recommended rate structure, the typical monthly bill for a metered residential customer would be approximately \$52.13, or an increase of 107.7% above current rates. The average monthly bill was calculated by taking the average water usage during winter season and the average usage during the summer season as shown in the following tabulation:

Season	Average Usage (gallons)	Current Monthly Bill	Proposed Monthly Bill	Amount of increase in (\$)	Percent Increase (%)
Winter	6,000	\$12.50	\$25.25	\$12.75	102.0%
Summer	30,000	\$37.70	\$79.01	\$41.31	109.6%
<u>Average increase</u>		<u>\$25.10</u>	<u>\$52.13</u>	<u>\$27.03</u>	<u>107.7%</u>

⁷American Water Works Association, Manual of Water Supply Practices, Water Rates, AWWA M1, Fourth Edition, 1991, p.34.

The rate impacts for metered residential customers using various monthly water volumes are presented in Attachment O. For example as shown in the table, a customer who uses about 60,000 gallons per month during the summer would be billed a total of \$146.21, an increase of approximately \$72.51 per month or 98.4% above the current rates.

Frequency of Meter Reading and Billing

The Company currently reads meters and bills customers on a quarterly basis. Its present tariff states that meter reading is done at the end of a quarterly billing cycle, beginning January 1, except when conditions make the meters inaccessible. In the event the Company cannot read a customer's meter for a billing period, the customer will only be billed the minimum monthly charges as set forth by the tariff. Company meter reading and billing records examined by Staff indicate that for the last three years, the Company read meters three times in 2010 (October to March, April to June and July to October quarterly usage). However, in 2011 and 2012, only two meter readings during those years were made (October to June –nine month usage and July to October quarterly usage).

The Company proposes to change its billing and meter reading procedure from a quarterly to monthly meter reading and billing schedule. The Company asserts that more frequent meter reading has been requested by many Company customers. The Company also believes that it would be in the best interest of the public to convert to a monthly meter reading and billing program for the following reasons:

1. It will allow the Company to provide accurate and timely water usage numbers to the customers enabling them to track personal usage, achieve water conservation, and to realize, find and correct water losses.
2. It will relieve the customers' financial burden that can occur with the longer usage and billing periods that are currently associated with quarterly schedule. A monthly billing would ultimately allow for customers to budget more effectively, especially for high usage months that produce an increase in per gallon charges.
3. It will also allow the Company to track more accurately the water balance between production and delivery to pinpoint any water loss that may be occurring on the Company side of the meter.

Spirit Lake submitted billing worksheets as part of its Application which show the total annual costs for quarterly meter reading and billing for the test year to be \$7,425. Changing to monthly meter reading and billing is estimated to cost \$8,550 annually, an increase of \$1,225 per year.

The Company's analysis of the billing determinants for monthly meter reading/billing is based on the contract with Water Works Inc. Due to these being related party transactions, Staff recreated the billing determinants using the invoices submitted by Water Works Inc. to the Company to create the number of hours used for services related to meter reading/billing and payment processing. Then using Idaho Department of Labor Statistics for the duties provided calculated the total cost for meter reading/billing on a quarterly basis. This adjusted the test year costs from \$7,424 to \$4,740. See Attachment J.

The Company has installed a new billing system that will affect the costs for meter reading/billing. The Company asserts that the time spent creating bills can be reduced by about one third.

Staff further analyzed the financial benefits of converting from quarterly meter reading/billing to a monthly schedule and found that excessive usage due to leaks is an ongoing problem. The total volume of customers' excess usage was 5,207,822 gallons during a specific billing period for those customers experiencing "leaks." The total cost of these "leaks" was estimated to be \$3,125 (one half of 5,207,822 gallons of excess usage @ \$1.20 per 1,000 gallons). This is equivalent to approximately 2,603,911 gallons of water lost due to "leaks" for 2012. Staff believes that monthly meter reading and billing could provide early leak detection and significantly reduce the cost of leakage for the Company and the customer.

Staff also believes that additional cost savings could be achieved by reducing electric power costs for water pumping. Using purchased power cost of \$0.374 per 1,000 gallons pumped during the test year (\$19,079 power cost/51,018,500 gallons pumped x 1,000 gallons), the total power cost saved by the Company would have been \$974 (2,603,911 gallons x \$0.374 per 1,000 gallons).

In addition to the reasons for monthly billing cited by the Company in its Application, Staff believes that monthly billing is further justified by providing more regular consumption information to customers so they may better monitor consumption and control their bills. Staff has also identified costs savings that result from better leak identification that further reduce the cost increase associated with monthly billing. An estimated incremental increase of approximately \$1.50 per month can be decreased to approximately \$0.33 per month with associated savings. For

all these reasons, Staff recommends that the Commission approve the Company's request to implement a monthly meter reading and billing procedure.

Other System Operation and Management Issues

Water Production, Consumption and Losses

One of the major issues during the last Company rate case (Case No. SPL-W-06-01) was the very high percentage of lost or unaccounted for water. Staff analysis in that rate case indicates from 59% (2005) to 61% (2006) of unaccounted water system losses annually. In the current case, Company records for calendar years 2010, 2011 and 2012 show total annual water production data, annual volume of water delivered and estimated loss as follows:

Year	2010	2011	2012
Total volume pumped (gals.)	42,991,400	49,847,272	51,018,500
Total volume delivered (gals.)	36,639,288	42,043,258	44,116,600
Total volume lost (gals.) <u>a/</u>	6,352,112	7,804,462	6,901,900
Percent system lost	14.8%	15.6%	13.5%

a/ Includes distribution system flushing and leakage.

Staff is encouraged that there has been a considerable reduction of water system losses compared to the losses being experienced by the Company in previous years.

CUSTOMER NOTICES AND PRESS RELEASES

The Company submitted copies of its customer notice and the press release as required under Rule 125 of the Utility Customer Relations Rules (UCRR). The Company mailed all customers a copy of the customer notice on April 10, 2013. The press release was published in the Coeur d'Alene Press on April 10, 2013.

The Commission issued a Press Release regarding the public workshop on Tuesday, June 18, 2013. The workshop was held in Spirit Lake, Idaho on Tuesday, June 25, 2013. There were twenty four (24) attendees. All attendees were in favor of a public hearing.

BILLING & COLLECTION

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 already switched its billing to the new billing system discussed earlier in Staff comments, and the new system meets the requirements of the UCRR.

Currently, the Company utilizes three separate notices in its attempt to collect a past due balance, plus a door hanger to be left if the customer is not at home the first time it attempts to collect the bill at the door. These notices are similar in design to the notices utilized by the previous owners of the Company. The contents and formatting of the notices do not meet the requirements of the UCRR. Staff recommends that the Company revise its termination notices and is willing to provide assistance, including examples, to ensure that the Company's notification process is in accordance with the UCRR.

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 tariff predates the Model Tariff for Small Water Utilities implemented in 2008 and it does not include a copy of the Uniform Main Extension Rules. The Company needs to update its tariff to conform to the current version and to that end, Staff is willing to provide a copy of the General Rules and Regulations and 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.

The Company tariff also includes a special provision under Attachment 1 that allowed customers to pay a hook up fee of \$650. Order No. 29513 (Case No. SPL-W-04-01) authorized the Company to increase its hook up fee to \$2,500 on June 9, 2004, and required customers who had paid the lower fee of \$650 to install connections prior to December 31, 2004. This paragraph has become outdated by the passage of time and needs to be removed from the Company tariff.

The Company Tariff expresses the commodity rates in \$ per gallon unit and this format has been in place since the Tariff was set by the Commission in 1983. The meter readings on a customer's bill are expressed in cubic feet or gallons, depending on the unit of measure on the

customer's meter. However the excessive usage above the 9,000 gallons/month allowed in the monthly charge is expressed in gallons.

A note on the bottom of the customer billing reminds customers that there are 7.48 gallons per cubic foot, so that customers can have the means to better understand their usage if their meter uses cubic feet as a unit of measure. While Staff commends the Company for adding the note to the bottom of the billing, Staff believes that hundred cubic feet (ccf) and 1,000 gallons increments are better unit of measures for excessive usage, and recommends that the Company use those units of measure in the note.

The Company electronically converts the volume usage from cubic feet to gallons when it creates its billing spreadsheets, if necessary, prior to importing the information into the billing system to generate the customer billing. Staff recognizes that the Company has more customer meters registering in cubic feet (90%) than in gallons (10%) as noted earlier, and that as meters are replaced all meters will measure usage in cubic feet.

In the meantime, Staff recommends that for customer convenience the Company indicate usage on the customer's bill in either cubic feet or gallon increments, depending upon the unit of measure of the customers' meters. Staff also recommends that the Company revise its rate schedule to include both cubic feet and gallon rates, preferably in terms of hundred cubic feet (ccf) and or one thousand gallons (1 K gallon) increments, and revise the notes on billing to reflect those increments of measure.

RULES SUMMARY & EXPLANATION OF RATES

The Company provides its Summary of Rules and Explanations of Rate Schedules to new customers and upon customer request, but states that it does not send out an annual rules summary as required under the UCRR Rule 701 or the Explanation of Rate Schedules as required under Rule 702. Examples are available and Staff is willing to work with the Company to create a summary of rules and an explanation of rates. Staff recommends that the Company provide the required documents upon initiation of service and annually thereafter.

CUSTOMER RELATIONS

There were no informal complaints to the Commission for the years 2010 and 2012. In 2011, there were two complaints in which the customer stated they had not received a bill, but did

receive termination notices. The Company worked with the customers and termination was avoided in both instances.

As a result of customer comments received in this case, Staff initiated five informal complaints regarding meter malfunction (1), water pressure (3) and water quality (1). The malfunctioning meter was confirmed to be inoperative and scheduled for replacement. When the Company checked water pressure at the complainants' service addresses, pressure was found to be above the IDEQ minimum operating limits of 30 psi at all three locations. The water quality issue was a complaint about a bleach odor of the water. The Company's response to the Commission complaint indicates that it treats all water prior to the water being pumped into the main storage reservoir, even though the quality of the water produced does not require treatment.

The Commission has received twenty (20) written comments from customers regarding this case as of July 15, 2013. Many of the customer comments recognized the need for an increase in rates, even if they didn't agree with the percentage of the increase requested by the Company.


STAFF RECOMMENDATIONS

Staff makes the following recommendations:

1. Staff recommends use of a 2011 test year.
2. Staff recommends a 12% return on equity and an overall return on rate base of 11.42%.
3. Staff recommends a rate base of \$327,034.
4. Staff recommends Working Capital of \$9,263.
5. Staff recommends that a revenue requirement of \$143,525. This represents additional revenue of \$70,655.
6. Staff recommends that the Commission approve the new rates proposed by Staff (Rate Design Option 2) maintaining the single block rate design with a base charge volume allowance of 6,000 gallons for metered residential and commercial customers.
7. Staff recommends that the Commission approve the monthly meter reading and billing procedure proposed by the Company.
8. Staff recommends that the Company express the commodity charge in both \$ per 1,000 gallons and \$ per hundred cubic feet (ccf) when the Company makes its compliance filing.
9. Staff recommends the Company revise its termination notices to conform with Commission Rules.

10. Staff recommends the Company create an explanation of rate schedules and a rules summary and provide the required documents upon initiation of service and annually thereafter.
11. Staff recommends the Company remove the obsolete reference to Order No. 29513 in the tariff.
12. Staff recommends the Company revise its tariff to include its Rate Schedules, the General Rules and Regulations for Small Water Utilities, and the Uniform Main Extension Rules in a format consistent with the Model Tariff.

Respectfully submitted this 31st day of July 2013.



Neil Price
Deputy Attorney General

Technical Staff: Gerry Galinato
John Nobbs
Joseph Terry
Chris Hecht

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Spirit Lake East Water Company
Summary Schedule of Adjustments
For Year Ended October 31, 2011

Attachment	Application	1 B	2 C	3 D	4 F	5 G	6 H	7	8 I	9 J	10 K	11	12	End Totals
		Plant In Service	Depreciation Expense	Accum Dep	Rental Expense	Telephone Expense	Related Party Adj	Moving Fuel to Power	Normalized Water Testing	Normalized Power	Monthly Billing	Bonner County Tax	Remove Interest Exp	
Revenue														
1 Metered Water Revenue	\$70,370													\$ 70,370
2 Connection Fees	2,500													\$ 2,500
3 Total Revenues	\$72,870	-	-	-	-	-	-	-	-	-	-	-	-	\$ 72,870
Operating Expense														
4 Purchased Power Expense	\$18,270				(797)					(338)	(974)			\$ 16,161
5 Fuel for Power Production	867							1,788						\$ 2,655
6 Operation And Maintenance Labor Expense	14,797						9,777				3,034			\$ 27,608
7 Materials & Supplies O&M	2,882													\$ 2,882
8 Administrative and Management Labor	24,212						(14,587)				2,002			\$ 11,627
9 Materials & Supplies A&G	2,654													\$ 2,654
10 Water Testing Expense	975								(305)					\$ 670
11 Rental Expense	14,400				(10,860)									\$ 3,540
12 Transportation Fuel Expense	1,788							(1,788)						\$ -
13 Insurance	2,510													\$ 2,510
14 Misc Operating Expense	2,176				(697)									\$ 1,479
15 Telephone Exp	1,745					(1,241)								\$ 504
16 TOTAL Operating Expense	\$87,275	-	-	-	(12,354)	(1,241)	(4,811)	-	(305)	(338)	4,062	-	-	\$ 72,289
Other Expense														
17 Depreciation Expense	\$23,927		(3,532)											\$ 20,395
18 Property Taxes	497											101		\$ 598
19 DEQ Fees	1,027													\$ 1,027
20 Regulatory Commission Expense	162													\$ 162
21 State Income Tax	30													\$ 30
22 Interest Expense	1,913												(1,913)	\$ -
23 Total Other Expenses	\$27,555	-	(3,532)	-	-	-	-	-	-	-	-	101	(1,913)	\$ 22,211
24 Net Income	-\$41,961	-	3,532	-	12,354	1,241	4,811	-	305	338	(4,062)	(101)	1,913	\$ (21,630)
Plant In Service														
25 Total Property Plant & Equipment	1,120,089	96,018	-	-	-	-	-	-	-	-	-	-	-	\$ 1,216,107
26 Less Accum Depr	840,489			88										\$ 840,577
27 Less Contributions in Aid of Construction	70,050													\$ 70,050
28 Net Plant in Service	209,550	96,018	-	(88)	-	-	-	-	-	-	-	-	-	\$ 305,480

Spirit Lake East Water Company
Schedule of Additions to Plant In Service
FYE 2011

Sub#	Description	Decision	FYE 2006	FYE 2007	FYE# 2008	FYE 2009	Retires	FYE 2010	FYE 2011	Retires	Ending Bal
		Order 30279									FYE 2011
301.00	Organization	0									0
303.00	Land & Rights	0									0
304.00	Structure & Imp	11,467			86,914						98,381
305.00	Reservoirs	82,850			40,748						123,598
307.00	Wells	30,132									30,132
310.00	Power Gen Eqpt	12,303			59,421						71,724
311.00	Power Pump Eqpt	107,756		8,653							116,409
320.00	Purif Systems	1,844									1,844
330.00	Stand Pipes & Res	0									0
331.00	Mains	520,757									520,757
333.00	Services	132,514									132,514
334.00	Meters	14,557							1,943		16,500
339.00	Other	0									0
340.00	Office F&E	3,025						1,587		(1,163)	3,449
341.00	Transportation	5,001					(5,001)				0
345.00	Power Operated Eqpt	0				24,981					24,981
346.00	Communications	1,952				1,951	(1,952)				1,951
347.00	Misc	0	1,827								1,827
348.00	Other Tangible	24,895		10,563							35,458
	Leak Detection	0		36,582							36,582
Total		\$949,053	\$1,827	\$55,798	\$187,083	\$26,932	(\$6,953)	\$1,587	\$1,943	(\$1,163)	\$1,216,107
Reported											1,120,089
Adjustment											\$96,018

Spirit Lake East Water Company, Inc.
Schedule of Depreciation Expense
Half Year Convention
FYE 2011

	Description	SvcDate	HistCost	SL	FYE 2002	FYE 2003	FYE 2004	FYE 2005	FYE 2006	FYE 2007	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012
				Life											
1	SPL-W-01-1														
2	Replacement Pump	1994	21,392	20	1,070	1,070	1,070	1,070	1,070	1,070	1,070	1,070	1,070	1,070	1,070
3	Main Replacement	2000	2,578	20	129	129	129	129	129	129	129	129	129	129	129
4	Replace Pump	2000	314	20	16	16	16	16	16	16	16	16	16	16	16
5	Booster Valve & start	2000	781	20	39	39	39	39	39	39	39	39	39	39	39
6	Main Valve	2001	624	20	31	31	31	31	31	31	31	31	31	31	31
7	Replace Pipe	2002	808	20	20	40	40	40	40	40	40	40	40	40	40
8	SPL-W-06-1														
9	Well Pumping Eqpt	2004	40,746	20			1,018	2,037	2,037	2,037	2,037	2,037	2,037	2,037	2,037
10	Roof Repairs	2005	3,062	10				306	306	306	306	306	306	306	306
11	Metering Eqpt	2005	639	5				64	128	128	128	128	63	0	0
12	Auto Dialer	2005	1,952	5				390	390	390	390	391	0	0	0
13	Bladder tanks & Reservoir	2006	5,447	10					146	545	545	545	545	545	545
14	Pwr Generating Eqpt	2006	5,115	10					511	511	0	0	0	0	0
15	Dist Pumps & Motors	2006	12,491	10					547	1,249	1,249	1,249	1,249	1,249	1,249
16	Chlorine Testing Meters	2006	1,048	5					208	210	210	210	210	0	0
17	Distribution Mains Repair	2006	4,210	10					421	421	421	421	421	421	421
18	Computer Program Upgrade	2006	2,400	5					480	480	480	480	480	0	0
19	Other Tangible Eqpt	2006	2,444	5					489	489	489	489	488	0	0
20	Services	2006	61,417	40					0	1,535	1,535	1,535	1,535	1,535	1,535
21	Generator (Reply net)	2006	7,188	15					0	479	479	479	479	479	479
22	Pump-Labor(Reply net)	2006	1,726	10					173	173	173	173	173	173	173
23	Tank (Reply net)	2006	330	40					0	8	8	8	8	8	8
24	SPL-W-13-1														
26	Misc Eqpt: Signs	2006	1,827	15					122	122	122	122	122	122	122
27	Pump Motor	2007	8,653	20					433	433	433	433	433	433	433
28	Leak Detection	2007	36,582	30					1,219	1,219	1,219	1,219	1,219	1,219	1,219
29	Other Tangible Eqpt	2007	10,563	20					528	528	528	528	528	528	528
30	Structures & Improvements	2008	86,914	40						1,086	2,173	2,173	2,173	2,173	2,173
31	Reservoirs	2008	40,748	40						1,019	1,019	1,019	1,019	1,019	1,019
32	Power Generator	2008	59,421	15						3,961	3,961	3,961	3,961	3,961	3,961
33	Auto Dialer	2009	1,951	10						195	195	195	195	195	195
34	Backhoe-used	2009	24,981	10						2,498	2,498	2,498	2,498	2,498	2,498
35	Office F&E	2010	1,587	10						159	159	159	159	159	159
36	Meters	2011	350	35											
38	Total		\$450,289		\$1,305	\$1,325	\$2,343	\$4,123	\$7,283	\$12,589	\$18,144	\$21,924	\$21,626	\$20,395	\$20,395
39	Reported Depreciation Expense													23,927	
40	Adjustment Required													(\$3,532)	

Spirit Lake East Water Company, Inc
Schedule of Accumulated Depreciaton
FYE 2011

Accumulated Depreciation, Order 30279		721,337
Depreciation Attachment C		
Depreciation Expense - 2006	7,283	
Depreciation Expense - 2007	12,589	
Depreciation Expense - 2008	18,144	
Depreciation Expense - 2009	21,924	
Depreciation Expense - 2010	21,626	
Depreciation Expense - 2011	20,395	
Depreciation Expense - 2012	20,395	
Subtotal		122,355
Adjustments for Retirements		
Communciation Equipment 2009	(1,952)	
Office Equipment - 2011	(1,163)	
Subtotal		(3,115)
Total Accumulated Depreciation		840,577
Reported Total Accumulated Depreciation		(840,489)
Adjustment Required		88

Spirit Lake East Water Company
Rental Adjustment
SPL-W-13-01

	Cost	Months	Annual Cost
Shop Rental	\$ 1,200	12	\$ 14,400
Annual Power Bill	\$ 797		\$ 797
Misc Costs	\$ 697		\$ 697
Annual Cost of Shop			\$ 15,894

	Cost	Months	Annual Cost
Office Rent	\$ 235	12	\$ 2,820
Internet	\$ 30	12	\$ 360
Utility and Maintenance	\$ 30	12	\$ 360
Annual Cost of Office			\$ 3,540

Difference \$ (12,354)

Spirit Lake East Water Company
Telephone Expense Adjustment
SPL-W-13-01

Ring Central Monthly Cost	\$	42
Annual Ring Cental Cost	\$	504

Annual Telephone Cost Test Year \$ 1,745

Difference \$ (1,241)

Spirit Lake East Water Company
 Related Party Adjustment
 SPL-W-13-01

	Accounts			General		Water operator		Snow Plow		Customer Service		Weed Trimming		Major Repair		Meter Reading		Other Office		Management		Back Up Operator	
	Mail	Receivable	Banking	Admin																			
Hours	52.79	35.05	39.09	43.82		333.10		125.91		81.31		18.20		42.14		40.00		152.00		100.00			
Trips						81		3				3		2		2							
Wage	\$ 17.88	\$ 17.88	\$ 17.88	\$		\$ 22.20	\$	\$ 23.06	\$	\$ 13.20	\$	\$ 13.96	\$	\$ 23.06	\$	\$ 26.65	\$	\$ 17.88	\$	\$ 44.86	\$		
Total Cost	\$ 944	\$ 627	\$ 699	\$ -	\$	\$ 12,838	\$	\$ 3,109	\$	\$ 1,073	\$	\$ 419	\$	\$ 1,109	\$	\$ 1,214	\$	\$ 2,718	\$	\$ 4,486	\$	\$ 3,600	

Round trip in miles 60
 Round Trip in hours 1.5
 Mileage Reimbursement 0.565

Staff Summary

Calculated Admin Labor Expense	\$ 9,473
Non-Related Party Admin Expenses	\$ 152
Calculated M & O Labor Expense	\$ 23,361
Non-Related Party M&O Expenses	\$ 1,212
Total Calculated Labor Cost	\$ 34,199
Company Test Year Admin Labor Expense	\$ 24,212
Company Test Year M & O Labor Expense	\$ 14,797
Total Test Year Labor Cost	\$ 39,009

	Difference
Admin Labor Expense	\$ (14,587)
M & O Labor Expense	\$ 9,777
	\$ (4,811)

Hours and Trips from Billing data
 Taken from Idaho Occupational Employment & Wage Release 2012

Spirit Lake East Water Company, Case No. SPL-W-13-01
Normalized Water Testing Costs

Well #1

Source	Analyte	Frequency	No. of Test*	Cost/Test	Total Cost	Annual Cost
Well #1	Gross Alpha	1 in 6 Years	1.5	\$ 75.00	\$ 112.50	\$ 12.50
Well #1	Radium 226	1 in 3 Years	3	\$ 120.00	\$ 360.00	\$ 40.00
Well #1	Radium 228	1 in 3 Years	3	\$ 110.00	\$ 330.00	\$ 36.67
Well #1	Uranium	1 in 6 Years	1.5	\$ 55.00	\$ 82.50	\$ 9.17
Well #1	Arsenic	1 in 9 Years	1	\$ 20.00	\$ 20.00	\$ 2.22
Well #1	Sodium	1 in 3 Years	3	\$ 25.00	\$ 75.00	\$ 8.33
Well #1	IOC** -Sodium	1 in 3 Years	3	\$ 195.00	\$ 585.00	\$ 65.00
Well #1	IOC's-Phase 2 and 5	1 in 9 Years	1	\$ 195.00	\$ 195.00	\$ 21.67
Well #1	Fluoride	1 in 9 Years	1	\$ 20.00	\$ 20.00	\$ 2.22
Well #1	VOC's**	1 in 6 Years	1.5	\$ 160.00	\$ 240.00	\$ 26.67
Well #1	Nitrate	Annual	9	\$ 20.00	\$ 180.00	\$ 20.00
Well #1	Nitrite	1 in 9 Years	1	\$ 20.00	\$ 20.00	\$ 2.22
Sub-total						\$ 246.67

Distribution	Lead & Copper	10 samples/3 years	30	\$ 30.00	\$ 900.00	\$ 100.00
Distribution	Total Coliform	Monthly	108	\$ 20.00	\$ 2,160.00	\$ 240.00
Distribution	DBP**-TTHM & HAA5	1 in 3 Years	3	\$ 250.00	\$ 750.00	\$ 83.33
Grand Total - Normalized Annual Water Testing Costs						\$ 670.00

* Total number of tests in 9-year cycle.

** IOC = Inorganic Contaminants

VOC = Volatile Organic Contaminants

DBP = Distribution By-Products

Spirit Lake East Water Company, Case No. SPL-W-13-01
Normalized Power Cost

Year	Total Power Cost	Total Volume Pumped (Gals)
2012	\$ 19,078.61	51,018,500
2011	\$ 17,348.55	49,847,720
2010	\$ 15,154.92	42,991,400
Total	\$ 51,582.08	143,857,620
Average	\$ 17,194.03	47,952,540

Power Cost for Test Case **\$0.374 per 1,000 gals .of water pumped**
Normalized Total Power Cost **\$17,932 per year**

Test Year Data Quarterly Billing

		Amount	Per Item	Per Meter Reading Period	Per Non Meter Reading Period	Total Year	Incr Cost
1	Meter Reading	Per Reading	1	606.88	606.88	1,213.75	
2	Banking	Per Hour	9.77	17.88	174.71	698.86	
3	Bill Creation Admin	Per Hour	10.96	17.88	195.89	783.57	
4	Postage	Per Stamp	288	0.33	95.70	381.48	
5	Forms	Per Sheet	288	0.51	147.90	589.56	
6	Customer Inquiry	Per Hour	20.33	13.20	268.31	1,073.25	
7			TOTAL	1,489.39	880.84	4,740.46	-

8	Meter Reading Periods	2
9	Non Meter Reading Periods	2

With New System Quarterly Billing

	Determinant	Amount	Per Item	Per Meter Reading Period	Per Non Meter Reading Period	Total Year	
10	Meter Reading	Per Reading	1	606.88	606.88	1,213.75	
11	Banking	Per Hour	9.77	17.88	174.71	698.86	
12	Bill Creation Admin	Per Hour	5.48	17.88	97.95	391.78	
13	Postage	Per Stamp	288	0.33	95.04	380.16	
14	Forms	Per Sheet	288	0.09	25.92	103.68	
15	Customer Inquiry	Per Hour	20.33	13.20	268.36	1,073.42	
16			TOTAL	1,268.85	661.98	3,861.65	(878.81)

17	Meter Reading Periods	2
18	Non Meter Reading Periods	2

With New System Bi Monthly Billing

		Amount	Per Item	Per Meter Reading Period	Per Non Meter Reading Period	Total Year	
19	Meter Reading	Per Reading	1	606.88	606.88	1,820.63	
20	Banking	Per Hour	9.77	17.88	174.71	1,048.29	
21	Bill Creation Admin	Per Hour	5.48	17.88	97.95	587.67	
22	Postage	Per Stamp	288	0.33	95.04	570.24	
23	Forms	Per Sheet	288	0.09	25.92	155.52	
24	Customer Inquiry	Per Hour	6.78	13.20	89.44	536.62	
25			TOTAL	1,089.93	483.06	4,718.97	(21.49)

26	Meter Reading Periods	3
27	Non Meter Reading Periods	3

With New System Monthly Billing

		Amount	Per Item	Per Meter Reading Period	Per Non Meter Reading Period	Total Year	
28	Meter Reading	Per Reading	1	606.88	606.88	4,248.13	
29	Banking	Per Hour	9.77	17.88	174.71	2,096.57	
30	Bill Creation Admin	Per Hour	5.48	17.88	97.95	1,175.35	
31	Postage	Per Stamp	288	0.33	95.04	1,140.48	
32	Forms	Per Sheet	288	0.09	25.92	311.04	
33	Customer Inquiry	Per Hour	5.08	13.20	67.08	804.94	
34			TOTAL	1,067.57	460.70	9,776.50	5,036.04

35	Meter Reading Periods	7
36	Non Meter Reading Periods	5

37	Operation And Maintenance Labor Expense Incremental Costs	3,034.38
38	Administrative and Management Labor Incremental costs	2,001.67
39	Total Incremental Costs	5,036.04

Spirit Lake East
Weighted Cost of Capital
Year Ended October 31, 2011

	Proposed	Ratio		
		Percent	Cost	Weighted
		of Total		Cost
Common Stock Issued	296,434			
Other Paid in Capital	326,769			
Retained Earnings	(460,008)			
Total Equity Capital	163,195	91%	12.00%	10.97%
Back Hoe Notes Payable	15,375	9%	5.30%	0.46%
Total	178,570	100%		11.42%

Long Term Debt Schedule

		Ratio		
Debt	Amount	Interest	Percent of	Weighted
		Rate	Total	Cost
Back Hoe Loan	15,375.00	5.30%	100.00%	5.30%
	15,375.00			5.30%

Spirit Lake East Water Co.
Revenue Requirement

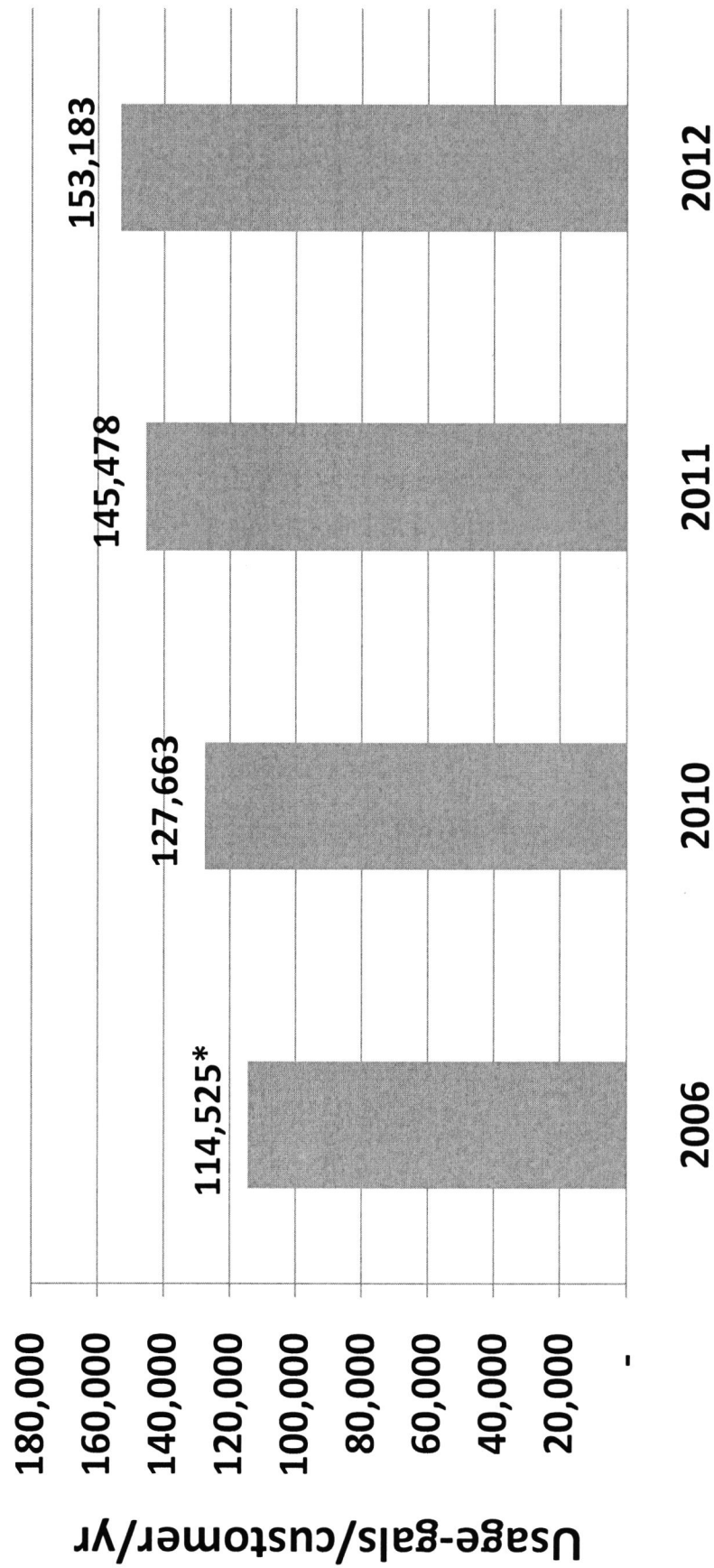
	Proposed	Staff Case	
1 Rate Base	\$232,750	\$327,034	
2 Required Rate of Return	11.42%	11.42%	
3 Return on Investment	\$26,587	\$37,358	
4 Net Operating Income Realized	(41,961)	(21,630)	
5 Net Operating Income Deficiency	\$68,548	\$58,988	
6 Net Operating Loss	\$41,961	\$21,630	
7 Debt Cost on Rate base		\$ 1,492	
8 Deficiency Not Subject to Gross-up Factor			\$23,123
9 Deficiency Subject to Tax Gross-up Factor	\$26,587	\$35,865	
10 Gross-up Factor	1.29	128.81%	
11 Grossed-up Deficiency	34,251	46,198	
12 Total Revenue Deficiency	\$76,211	\$69,321	
13 Rate Case Expense	4,000	4,000	
14 Three Year Amortization	1,333	1,333	
15 Total Revenue Deficiency	\$77,544	\$70,655	
16 Test Year Revenues at Current Rates	72,870	72,870	
17 Total Gross Revenue Requirement	\$150,414	\$143,525	
Gross-up Factor Calculation			
18 Net Deficiency	100.00%	100.00%	
19 PUC Fees	0.2340%	0.2253%	
20 Bad Debts	0.5000%	0.5000%	
	99.27%	99.27%	
21 State Tax @ 8%	7.94%	7.94%	
22 Federal Taxable	91.32%	91.33%	
23 Federal Tax @ 15%	13.70%	13.70%	
24 Net After Tax	77.63%	77.63%	
25 Net to Gross Multiplier	128.82%	128.81%	

Spirit Lake East Water Company
Rate Base
FYE 2011

	Application	Staff	Difference
1 Plant In Service	1,120,089	1,216,107	96,018
2 Accumulated Depreciation	(840,489)	(840,577)	-88
3 CIAC	(70,050)	(70,050)	0
4 Net Plant In Service	209,550	305,480	95,930
5 M & S Inventory	12,291	12,291	
6 Working Capital	10,909	9,263	1,646
7 Total Rate Base	\$232,750	\$327,034	\$97,576
8			
9			
10			
11 Working Capital Calculation			
12 TOTAL Operating Expense		72,289	
13 Property Taxes		598	
14 DEQ Fees		1,027	
15 Regulatory Commission Expense		162	
16 State Income Tax		30	
17 Sub Total Operating Expenses		74,106	
18 Working Capital (1/8 Rule)		9,263	

Spirit Lake East Water Company

Annual Customer Usage



*Data from SPL-W-06-01 rate case.

Spirit Lake East Water Case No. SPL-W-13-01

Rate Proof/Estimated Revenue (Pro forma) using Staff Proposed Rate Design

Option 2 - Reduce the Volume Allowance to 6,000 Gallons per Month

Staff-Proposed Revenue Requirement: \$143,525

Total Number of Customers: Residential 288

MINIMUM CUSTOMER CHARGE

Type of Customers	Number of Customers	Volume Allowance (Gallons)	Minimum Customer Charge	Total Annual Rev. from Min. Customer Charge
Residential	288	6,000	\$ 25.25	\$ 87,264

COMMODITY CHARGE

Commodity charges for all customers (\$/1,000 gallons)	\$ 2.24
Net Volume of Excess Usage (gallons) <u>1</u> /	25,140,000
Total Commodity Revenue	\$ 56,314

Total Revenue (minimum customer and commodity charges): \$ 143,578

Revenue over (under) Revenue Requirement: \$53

Various Charges as a % of Gross Revenue:

Minimum Customer Charge 61%

Commodity Charge 39%

1 / Based on 6,000 gallons volume allowance per month.

Attachment __

Spirit Lake East Water Case No. SPL-W-13-01

Rate Impacts - Current Rates Vs. Staff-Proposed Rates for Metered Residential Customers

Option 2 - Reduce Volume Allowance to 6,000 gals/month.

Rate Elements	Current	Proposed	% Increase
Monthly Base Rate:	\$ 12.50	\$ 25.25	102.0%
Commodity Rate (per 1,000 gallons)	\$ 1.20	\$ 2.24	86.7%
Volume Allowance (gallons)	9,000	6,000	

Monthly Usage Gallons	Current Base Rate	Volume Allow.	Com. Rate \$/1000 gal	Current Monthly Billing	Staff Poposed Base Rate	Volume Allowance Base Rate	Com. Rate \$/1000 gal	Total Monthly Billing	Difference per Month	Percent Difference per month
0	\$ 12.50	9,000	\$ 1.20	\$ 12.50	\$ 25.25	6,000	\$ 2.24	\$ 25.25	\$ 12.75	102.0%
2,000	\$ 12.50	9,000	\$ 1.20	\$ 12.50	\$ 25.25	6,000	\$ 2.24	\$ 25.25	\$ 12.75	102.0%
4,000	\$ 12.50	9,000	\$ 1.20	\$ 12.50	\$ 25.25	6,000	\$ 2.24	\$ 25.25	\$ 12.75	102.0%
5,000	\$ 12.50	9,000	\$ 1.20	\$ 12.50	\$ 25.25	6,000	\$ 2.24	\$ 25.25	\$ 12.75	102.0%
6,000	\$ 12.50	9,000	\$ 1.20	\$ 12.50	\$ 25.25	6,000	\$ 2.24	\$ 25.25	\$ 12.75	102.0% a/
10,000	\$ 12.50	9,000	\$ 1.20	\$ 13.70	\$ 25.25	6,000	\$ 2.24	\$ 34.21	\$ 20.51	149.7%
12,000	\$ 12.50	9,000	\$ 1.20	\$ 16.10	\$ 25.25	6,000	\$ 2.24	\$ 38.69	\$ 22.59	140.3%
14,000	\$ 12.50	9,000	\$ 1.20	\$ 18.50	\$ 25.25	6,000	\$ 2.24	\$ 43.17	\$ 24.67	133.4%
15,000	\$ 12.50	9,000	\$ 1.20	\$ 19.70	\$ 25.25	6,000	\$ 2.24	\$ 45.41	\$ 25.71	130.5%
17,000	\$ 12.50	9,000	\$ 1.20	\$ 22.10	\$ 25.25	6,000	\$ 2.24	\$ 49.89	\$ 27.79	125.7%
20,000	\$ 12.50	9,000	\$ 1.20	\$ 25.70	\$ 25.25	6,000	\$ 2.24	\$ 56.61	\$ 30.91	120.3%
25,000	\$ 12.50	9,000	\$ 1.20	\$ 31.70	\$ 25.25	6,000	\$ 2.24	\$ 67.81	\$ 36.11	113.9%
28,000	\$ 12.50	9,000	\$ 1.20	\$ 35.30	\$ 25.25	6,000	\$ 2.24	\$ 74.53	\$ 39.23	111.1%
30,000	\$ 12.50	9,000	\$ 1.20	\$ 37.70	\$ 25.25	6,000	\$ 2.24	\$ 79.01	\$ 41.31	109.6% b/
40,000	\$ 12.50	9,000	\$ 1.20	\$ 49.70	\$ 25.25	6,000	\$ 2.24	\$ 101.41	\$ 51.71	104.0%
50,000	\$ 12.50	9,000	\$ 1.20	\$ 61.70	\$ 25.25	6,000	\$ 2.24	\$ 123.81	\$ 62.11	100.7%
60,000	\$ 12.50	9,000	\$ 1.20	\$ 73.70	\$ 25.25	6,000	\$ 2.24	\$ 146.21	\$ 72.51	98.4%
70,000	\$ 12.50	9,000	\$ 1.20	\$ 85.70	\$ 25.25	6,000	\$ 2.24	\$ 168.61	\$ 82.91	96.7%
80,000	\$ 12.50	9,000	\$ 1.20	\$ 97.70	\$ 25.25	6,000	\$ 2.24	\$ 191.01	\$ 93.31	95.5%
90,000	\$ 12.50	9,000	\$ 1.20	\$ 109.70	\$ 25.25	6,000	\$ 2.24	\$ 213.41	\$ 103.71	94.5%
100,000	\$ 12.50	9,000	\$ 1.20	\$ 121.70	\$ 25.25	6,000	\$ 2.24	\$ 235.81	\$ 114.11	93.8%

a/ average usage during winter period..


b/ average usage during summer period.

Attachment ____

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 31ST DAY OF JULY 2013,
SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN
CASE NO. SPL-W-13-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID,
TO THE FOLLOWING:

LESLIE ABRAMS
OWNER/OPERATOR
SPIRIT LAKE EAST WATER
PO BOX 3388
COEUR D'ALENE ID 83816



SECRETARY