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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PURCHASE AND)	
SALE OF TROY HOFFMAN WATER)	CASE NO. TRH-W-09-01
CORPORATION (CERTIFICATE OF)	
CONVENIENCE AND NECESSITY NO. 280))	
)	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 December 17, 2009, submits the following comments.

BACKGROUND

On November 12, 2009, an Application was filed with the Idaho Public Utilities Commission (Commission) requesting approval of the sale of Troy Hoffman Water Corporation (Troy Hoffman Water; THWC) by Bentwood Park LLC to Dalton Square LLC. Dalton Square will operate the THWC as a corporation and continue to operate under the Troy Hoffman Water Corporation name. The Application is solely for approval of the change of ownership.

Dalton Square is familiar with the Commission's regulatory authority and rules and is prepared to abide by existing directives. The Company is aware of the Commission's website and have become familiar with the Utility Customer Relations Rules (IDAPA 31.21.01) and Utility Customer Information Rules (IDAPA 31.21.02.). Dalton Square is familiar with the water system testing requirements of the Idaho Department of Environmental Quality and is prepared to fulfill those ongoing requirements.

Dalton Square represents that it has the business experience, financial ability and water system expertise to operate and maintain the system. Dalton Square is owned by Ron Stadley and Ken Murren and was formed in 2006. Dalton Square owns light industrial buildings for rent in Coeur d'Alene as well as apartments for rent in Plummer. Mr. Stadley has been the water master for THWC since 1995 and is qualified to operate a pressurized potable water system, both through his hands-on experience of handling the day-to-day operations, maintenance and emergencies as well as through being licensed as a drinking water operator which requires ongoing continuing education classes. Mr. Stadley holds a current Drinking Water Operator License. Mr. Stadley has also been an electrician since 1988 and owns his own electrical company. He holds a master electrician license in four states. Mr. Murren has 25 years of experience in commercial and residential construction. He owns a general contracting and landscaping business and specializes in custom homes. He is currently in the process of preparing to take his tests to receive both his Drinking Water Operator License and Backflow Assembly Tester License.

There is no deed transferring title to the water system because THWC is the corporation that owns the real estate and Dalton Square is purchasing the corporation. Included with the Application are copies of the Purchase and Sale Agreement between Bentwood Park and Dalton Square. The transfer of ownership took place April 1, 2009. Also included is a copy of the Drinking Water Operator License held by Ron Stadley, a copy of Dalton Square's Certificate of Existence from the Idaho Secretary of State, and a copy of the Idaho Tax Commission's 2009 Valuation of THWC for \$16,081. The Purchase and Sale Agreement, Attachment A to the Application, shows the purchase price of \$65,000 as the value the seller and buyer agreed upon for sale/purchase of THWC.

Included with the filing also is a brief business plan which explains how Dalton Square intends to incorporate the THWC into its other business interests and a copy of notice sent to customers on November 10, 2009, informing them of the sale.

STAFF ANALYSIS

Finance and Accounting

Staff has reviewed the Troy Hoffman Water Corporation Application requesting approval to sell and transfer all its outstanding common stock from the current owner Bentwood Park LLC. (Bentwood Park) to Dalton Square, LLC (Dalton Square). Bentwood Park currently is owned by two managers: H. James Magnuson and Rick Gunther. Dalton Square is an Idaho limited liability corporation owned and managed by two managers: Ron Stadley and Ken Murren. Staff has determined that both Bentwood Park and Dalton Square are corporations in good standing with the Idaho Secretary of State's office.

Troy Hoffman Water serves 144 residential customers in the city limits of Coeur d'Alene, Idaho. THWC has provided water service since 1977 under Certificate No. 280 as issued by this Commission on January 18, 1977.

Dalton Square will purchase all of the outstanding common stock of THWC for \$65,000 and will continue to operate THWC as the licensed entity and water provider. Dalton Square understands that the current financial records for THWC will be used on a going forward basis for the establishment of any rates and that the purchase price for the common stock will not be recorded on the books of THWC. Staff has informed Dalton Square that the stock purchase is an investment by Dalton Square and as such is not recoverable from customers. Dalton Square acknowledges that it is aware that the valuation of the rate base by the Commission in any future rate cases will be the same as is currently on the books of THWC plus new plant additions and will not be revalued because of the purchase price of the common stock. Dalton Square understands that in any future rate cases, it has the responsibility to justify any additions to the rate base.

Dalton Square acknowledges that it understands that accounting for the water system must be in accordance with the Commission's Uniform System of Accounts and must be maintained on a stand-alone basis separate and apart from any other business activities of the buyer. It is the intent of the buyer to continue to use the services of All Service Electric to do the

billing for the water system and to complete and meet the Commission's accounting requirements. All Service Electric has been doing the billing for THWC for the last three years.

Ron Stadley, one of the managers of Dalton Square, has been the certified operator and water master of the water system since 1995. He has proven himself during that time to be well qualified to operate the system, and will continue to serve as the water master after the approval to transfer the common stock.

Troy Hoffman Water's billing services have been provided by All-Service Electric, a company owned by Ron Stadley. This company will continue to provide the billing services after the common stock transfer. Staff has advised all parties involved that any service provided by an affiliated company must be provided to THWC at a reasonable rate. Any affiliate transaction must meet higher standards to show the costs are reasonable.

From the customer's perspective, all services previously provided by THWC will remain the same. Troy Hoffman Water has not requested a rate increase with this Application and therefore any approval of the transfer would not have any effect on rates.

Staff has reviewed the current financial information for Dalton Square, Ron Stadley and Ken Murren. Based upon that financial information provided, Dalton Square and its managers have the financial strength to support and operate THWC as an on-going concern and will not be an additional burden on the water company's operation. Additionally, Dalton Square, Mr. Stadley and Mr. Murren have the financial strength to provide for future financial needs should THWC have that need.

Engineering

As part of its review, Staff contacted the Idaho Department of Environmental Quality, Coeur d'Alene Region (IDEQ) to ensure that Troy Hoffman Water Corporation is currently in compliance with IDEQ's rules and regulations. Staff was informed by IDEQ that the last Sanitary Survey conducted on Troy Hoffman Water was December 10, 2004. Sanitary Survey is an onsite review of the water source, facilities, equipment, operation and maintenance to assure a public water system provides an adequate source of supply, and is distributing safe drinking water. Generally, for community systems, IDEQ conducts a Sanitary Survey every five (5) years, with some exceptions. According to IDEQ, effective 2013, Sanitary Surveys will be conducted every three (3) years. During the 2004 Sanitary Survey, IDEQ identified several

deficiencies requiring correction. IDEQ letter to Company, December 16, 2004. IDEQ informed Staff that it does not have a Plan of Corrections submitted by the Company to IDEQ regarding the regulatory deficiencies noted during the December 10, 2004 Sanitary Survey. One major deficiency that needs to be corrected was the installation of a water production flow meter at the well.

Staff contacted Ron Stadley, new owner of the Troy Hoffman Water, to find the status of the installation of flow meter. Mr. Stadley explained that this specific system deficiency has already been corrected. When the Company retrofitted the pumping system in March 2009, the Company also installed a 4-inch flow meter that measures instantaneous flow rates and volume of water pumped. With the newly installed meter, the Company can now record its total water production on a regular basis. The Company informed Staff that IDEQ has not yet been notified that this corrective action was already completed by the Company. The other deficiencies are minor and the Company has either corrected them or the deficiencies are in the process of being completed. IDEQ informed Staff that Troy Hoffman Water is due for another Sanitary Survey in 2010. This survey will identify any current deficiencies and confirm that the deficiencies identified during the December 10, 2004 survey have been appropriately corrected.

The Commission recently received an email from a Troy Hoffman Water customer complaining that the water pressure in the customer's residence has been half its normal pressure for the past two months. Staff contacted IDEQ to determine if there have been some low water pressure complaints from customers of Troy Hoffman. IDEQ indicated that no complaints have been received recently. Staff alerted the Company concerning this complaint and the Company indicated the same customer included a note concerning this problem when the last water payment was sent to the Company. Ken Murren, in-charge of the Company's operations and maintenance investigated the problem on January 7, 2010, and provided the Staff a copy of the incident report. The report indicates that the customer meter was functioning properly and it was not spinning to indicate a potential leakage problem. The water pressure at the customer side of the house was 68 psi. A neighbor's water pressure was also checked and read 68 psi. The Company suggested to the customer that perhaps the screens on the faucets and shower head may need to be checked to see if they are clogging. Troy Hoffman Water system appears to be operating within the IDEQ's rules and regulations pertaining to water pressures in the distribution system.

As mentioned in the Application, Mr. Stadley is the new co-owner of the Troy Hoffman Water Corporation and will continue as the water system operator. He currently holds a license as Drinking Water Operator, Distribution – Very Small System (DWO-DVSS). Staff notes that his license expires on February 28, 2010. To continue as a certified operator for Troy Hoffman Water, he must maintain his certification as DWO-DVSS.

Staff also reviewed the Company's water rights. According to the Idaho Department of Water Resources, Northern Region, Troy Hoffman Water has two valid water right licenses. While the Company name is not changing with the sale of the Company to Dalton Square, LLC, it may be necessary to notify IDWR about change of address of the Company for future communication. IDWR informed Staff that it would soon serve notification to water rights holders in the area to file adjudication claims. Staff recommends that the Company appropriately file the notice of claims to its water rights when the adjudication notification has been issued by IDWR. This action will assure protection of the Company's water rights for the benefit of its customers.

Customer Relations

The Company notified customers of the sale in a letter dated November 10, 2009. The customer notification filed with the Application complies with the requirements of Utility Customer Information Rules (IDAPA 31.21.02 et seq.).

The Commission has received no complaints and only one inquiry from a customer in the past three years. There have been two comments received from customers during the comment period. One comment expressed support for the sale while the other (as discussed above) expressed concern about adequate water pressure.

The Company did not submit updated versions of the Company's Tariff and rate schedule as part of the transfer. A review of the Company rules and regulations on file, dated 1982, and the rate schedule, dated 1996, indicate the Company will need to revise its rate schedule and tariff to comply with the model tariff adopted by the Commission. Staff review of notices and billing statement submitted in 2007 as part of a periodic review indicate that the Company will need to update documentation to conform with the Utility Customer Relations Rules (IDAPA 31.21.01 et seq.). Billing documentation is adequate but the Company will need to revise its annual rules summary and notices used in the termination process. Sample forms are available

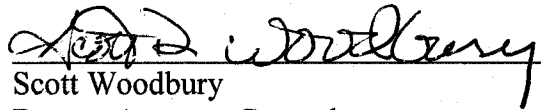
online or from Commission Staff, and Staff recommends the Company update its Tariff, rules summary and billing and collections documents. Staff is willing to work with the Company in an ongoing effort to update forms to ensure compliance with the all current rules and regulations.

RECOMMENDATIONS

Staff is supportive of this sale and recommends that the Commission authorize the transfer of all of Troy Hoffman Water Corporation outstanding common stock from Bentwood Park, LLC to Dalton Square, LLC. Staff also recommends that Dalton Square make the appropriate changes with the affected state agencies to reflect the new registered agent and registered address of Troy Hoffman Water Corporation.

Staff recommends the Company update its tariff, rules summary and billing and collections documents to meet current Commission rules and regulations.

Respectfully submitted this 15th day of January 2010.


Scott Woodbury
Deputy Attorney General

Technical Staff: Joe Leckie
Gerry Galinato
Chris Hecht

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 15TH DAY OF JANUARY 2010, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. TRH-W-09-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

BENTWOOD PARK LLC
C/O H JAMES MAGNUSON
PO BOX 2288
COEUR D'ALENE ID 83816

DALTON SQUARE LLC
ATTN: RON STADLEY
710 W DALTON AVE STE B
COEUR D'ALENE ID 83815



SECRETARY

CERTIFICATE OF SERVICE