(text box: 1)BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE APPLICATION OF TROY HOFFMAN WATER CORPORATION, INC.  FOR AUTHORITY TO INCREASE ITS RATES. | ))))) | CASE NO. TRH-W-95-1ORDER NO.  26545 |

On August 31, 1995, Troy Hoffman Water Corporation Inc.  (Troy Hoffman; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting authority to implement a 30% increase in tariff rates.  The Company serves approximately 144 customers, all residential.  Troy Hoffman contends that from 1986 to 1994 it has operated at an average loss of approximately $1,700 per year and has been required to install flow meters by the Idaho Division of Environmental Quality.  The Company proposes a 1993 test year adjusted for the addition of flow meters to its system.  The Company estimates the cost of installing the meters to be $10,000.  The Company calculates a 1993 pro forma rate base valuation of $16,689.  The Company submits that the proposed increase will result in $4,535 of additional revenue.  The Company has not requested a proposed effective date.

The Troy Hoffman Water Corporation was purchased in 1994 by James Magnuson and Rick Gunther.  This is the first application for a rate increase under the new ownership.  Notice in this case was delayed to enable the Company to supplement its filing and to comply with Commission Rules of Procedure.  Reference IDAPA 31.01.01.121 Form and Contents of Application to Change Rates.

Staff has performed an audit of the Company’s financial data and business records, toured the system and discussed the requirement for installation of flow meters with a representative of the Idaho Division of Environmental Quality (DEQ).  Per Staff investigation, the average annual revenue per customer during the past five years is $122.27.  In its analysis, Staff elected to rely upon more recent 1994 financial data as indicative of the Company’s financial condition.  Using a 1994 rate base with pro forma adjustments for the addition of flow meters and working capital, Staff calculates a rate base valuation of $17,240, and a revenue deficiency of $4,050.  This translates to a required average increase in rates of 23%, or approximately $2.34 per month.  Calculation of the revenue requirement incorporates a return on the Company’s rate base of 12%.  Staff recommends that the monthly rate base for customers with 3/4" meters be increased from $4.25 to $5.50.  For customers with 1" meters, the base rate would increase from $5.75 to $7.50.  The recommended commodity rate for all customers would be increased from $.50 per 1,000 gallons to $.60 per 1,000 gallons.  No change is proposed in the 3,000 gallon per month customer allowance.  Staff’s Audit Report was filed with the Commission on June 14, 1996.

Based on its review of its filings of record in Case No. TRH-W-95-1 the Commission preliminarily determined that the issues raised by the Application and Staff’s Audit Report could be processed under Modified Procedure, i.e., by written submission rather than by hearing.  Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204.  On June 17, 1996, the Commission issued a Notice of Application and Modified Procedure in Case No. TRH-W-95-1.  The deadline for filing written comments was July 17, 1996.  Comments were filed by Commission Staff.  Also received was a letter from the Company.

Staff adopts its previously filed Audit Report as its comments and recommendations.

The Company in its letter of June 13, 1996, to Robert E.  Smith, Senior Staff Auditor, raises the following points after reviewing the Staff Audit Report:

First, we have attempted to minimize expenses by utilizing services through my office.  This has become somewhat burdensome.  I envision the possi­bility that the business, accounting and billing functions would be contracted out in the future.  This will result in an unknown increase in operating expenses.

Secondly, and more important, is establishment of a reserve.  Unforeseeable matters happen which cost money.  In December we had to have a series of water tests performed at an expense of just over $1,000.  These tests are only required once every five years and needed to be done before the end of 1995.  We recently had to have the roof of the pump house replaced.  Yesterday the city of Coeur d’Alene, while installing sewer tore up some of our water pipes.  They say repair is our expense because we did not adequately inform them of the location of the underground pipes.  I just wanted to bring these matters to your attention as things break and need to be replaced in an unforeseen manner.  We believe establishment of a reserve is an important matter.  Therefore, we feel that a 30% increase is justified.

Commission Findings

The Commission has reviewed and considered the filings of record in Case No. TRH-W-95-1 including the Audit Report and comments of Commission Staff and the letter response of the Company.  The audit results of Staff, we find, are uncontested.  The adjustments made by Staff and reflected in its audit and related attachments and workpapers, we find to be reasonable.  Based on its audit, Staff calculates an annual revenue deficiency for Troy Hoffman of $4,050.  Such a revenue deficiency, Staff calculates, would require an average increase in the Company’s metered sale revenues of 23%.  The calculation of the revenue requirement incorporates a 12% return on the Company’s calendar year 1994 adjusted rate base of $17,240.  We find such a return to be comparable to returns for other small water companies in Idaho and reasonable for Troy Hoffman.  We also find the calculated revenue deficiency and the Staff audit and related adjustments to be uncontested and a true representation of the Company’s financial condition for purpose of determining fair, just and reasonable rates.

In reviewing the Company’s tariffs we note that apart from the Company’s Schedule No. 1 annual DEQ public drinking water fee, the Company’s tariff rates have remained unchanged since 1981.  In reviewing the filings in this case we note that nearly a year has lapsed since the Company filed its Application.  Although our procedural rules are to be complied with (even by small water companies) and Staff must have adequate time to complete its audit, the protracted history of this case causes this Commission to wonder what additional assistance could have been requested or offered.  The Company’s circumstances and financial situation as reflected in Staff’s audit and as further depicted in the Company’s Application (stated Need for Additional Revenue) and response letter of June 13, 1996 demonstrates that Troy Hoffman should be provided with immediate interim relief so as not to prolong and exacerbate the Company’s very real cash flow problems.  We therefore find it fair, just and reasonable based on the filings of record in Case No. TRH-W-95-1 to approve, pending further procedure and public hearing, an interim annual revenue requirement increase subject to refund for Troy Hoffman in the amount of $4,050 with an effective date of August 1, 1996.  We authorize the increase to be collected in the following manner as recommended by the Staff:

The monthly base rate for customers with 3/4 inch meters will increase from $4.25 to $5.50.  For customers with 1 inch meters, the base rate will increase from $5.75 to $7.50.  The commodity rate for all customers will increase from $.50 per 1,000 gallons to $.60 per 1,000 gallons.  As proposed, there is no change in the 3,000 gallon per customer monthly allowance.

The Commission finds that the rates will generate the authorized calculated revenue increase under normal conditions.  The Company is directed to file tariffs in compliance with this Order to reflect the allowed rate increase.  We note that the revenue requirement increase we adopt includes recovery of the annual DEQ assessment.  We are informed that the Company has yet to collect its annual DEQ assessment for 1996; we therefore find it reasonable to authorize continuation of the tariff for the remainder of calendar year 1996, with cancellation of the tariff to occur thereafter.

Although we have approved a 23% increase in the Company’s annual revenue requirement, the Company, we note, has requested a 30% increase with the difference to be used to fund a reserve account for unforeseeable expenses.  The reasonableness or appropriateness of such an account was not addressed by Staff and we find that there is not yet a sufficient record on this issue.  We find, however, that it is perhaps an opportune time to initiate a formal generic case where  alternatives to traditional rate making (including reserve accounts) for small water companies are explored.  The challenges which Troy Hoffman faces are not unique but are seemingly common to many small water companies.  In some instances the financial viability and ability to provide customers with reliable and adequate water service  can be threatened.  The time is right to review our manner and method of economic regulation of small water companies and to determine what changes in statute or rules (if any) are required to regulate such entities more effectively.  The Commission will therefore initiate a generic case in a separate docket and finds it reasonable to stay further proceedings in this case pending further notice and order or motion.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over Troy Hoffman Water Corporation, Inc., a water utility, and the issues presented in Case No. TRH-W-95-1, pursuant to the authority and power granted the Commission under Title 61 of the Idaho Code and pursuant to the Commission’s Rules of Procedure, IDAPA 31.01.01.000 et seq.

O R D E R

In consideration of the foregoing and has more particularly described above, IT IS HEREBY ORDERED that Troy Hoffman Water Corporation, Inc. is authorized on an interim basis and subject to refund to increase its annual revenue requirement by $4,050 and to recover same by increasing its rates in the manner set forth above effective August 1, 1996.  The Company is directed to file compliance tariffs prior to billing any increase and is authorized to collect its annual DEQ assessment surcharge for calendar year 1996.

In consideration of the foregoing IT IS FURTHER ORDER that further proceedings in this case be stayed pending the Commission’s separate inquiry into and exploration of alternative and suitable forms of regulation for small water companies.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this                  day of  July 1996.

                                                             RALPH NELSON, PRESIDENT

                  MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

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**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

August 1, 1996