DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

MYRNA WALTERS

TONYA CLARK

DON HOWELL

STEPHANIE MILLER

DAVE SCHUNKE

BOB SMITH

RICK STERLING

MARGE MAXWELL

GARY RICHARDSON

WORKING FILE

FROM:SCOTT WOODBURY

DATE:JULY 19, 1996

RE:CASE NO.  TRH-W-95-1

TROY HOFFMAN WATER CORP.—RATE CASE

On August 31, 1995, Troy Hoffman Water Corporation Inc.  (Troy; 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 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.  Staff further recommends that the Commission schedule an evening public hearing in this matter in Coeur d’Alene for the limited purpose of receiving oral testimony and comments of the Company’s customers and interested members of the public, and providing an opportunity for the Commissioners to question the applicant Company and Commission Staff.

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 Decision

The Audit Report of Commission Staff is attached.  Staff recommends a 23% increase in rates, or approximately $2.34 per month.  The Company recommends a 30% increase in rates and the establishment of a reserve account.  The Commission has yet to authorize a reserve account for a small water utility.  Although not addressed in its comments, Staff believes that the feasibility of a reserve account for small water companies should be explored. Should Staff’s Audit Report be accepted as the foundation for a change in rates?   Should the Company’s Application and request for a reserve account be approved?  Does the Commission believe that a hearing should be held in Coeur d’Alene?  Does the Commission desire to have any issues addressed in formal testimony?  What is the Commission’s preference?  How does the Commission wish to proceed?

Scott Woodbury

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