

DECISION MEMORANDUM

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

FROM: CECELIA A. GASSNER

DATE: OCTOBER 12, 2006

SUBJECT: APPLICATION TO SELL THE ALGOMA WATER SYSTEM
CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY NO. 396,
CASE NO. AWS-W-06-1

On May 18, 2006, Algoma Water System (“Algoma” or “Company”) filed an Application with the Commission seeking approval of amendment of its Certificate of Public Convenience and Necessity (CPCN) to reflect a change in ownership. Pursuant to *Idaho Code* § 61-526, the Commission has the authority to approve such amendment. On June 16, 2006, the Commission issued a Notice of Application and Modified Procedure. Order No. 30075. In such Order, the Commission set a comment deadline of August 15, 2006. By Minute Order on August 3, 2006, the comment deadline was extended to September 15, 2006. The only comments received were submitted by Staff, and the Company did not submit any reply comments.

THE APPLICATION

In the Application, Algoma states that the ownership of the business has transferred from Larry and Christopher Neu to Paul Greenwood, and it seeks approval of amendment of Public Convenience and Necessity No. 396 to reflect this. The Application contains certain information related to the sale and the fiscal status and business plans of the new owner. In addition, the Application states that the new owner does not intend to ask for a change in rates and charges for services at this time. The Application contains a request that it be processed by Modified Procedure.

STAFF COMMENTS

Finance

Mr. Greenwood has a business background in real estate development and business management. He presented to the Commission a personal financial statement indicating a net worth that represents sufficient financial strength to support the ownership of the water system. He owns a landscaping business in California and three sewer systems in Bonner County, Idaho. Although these sewer companies are not regulated by the Commission, these systems are similar in enough respects to indicate that he has experience in operating a utility.

The water system (physical plant) under the ownership of Larry Neu, the previous owner, had no rate base recorded on the annual reports and therefore none of the rates reflect a return on any capital investment. Additionally, Mr. Neu acknowledged that all improvements to the water system that were made during the period of time he owned the system were accounted for as repairs (expenses) and not as capital improvements. The new owner has acknowledged that he will not claim any of the purchase price as rate base at this time or in any future rate case. Therefore, the purchase price of the assets purchased by Mr. Greenwood as recorded on the Company's books will not be included in rate base or earn a return, and as such will not be recoverable from customers in rates.

Mr. Greenwood agreed that the operation of the water company will not include any sharing of expenses or overhead costs with any of his other business operations. He also agreed that the accounting for the water system would be separated from the accounting for any other business so that the expenses of operating the water system would be easily identifiable.

The 2005 Annual Report for Algoma reported a long-term debt to Panhandle State Bank in the amount of \$32,305.90. According to Company's responses to Staff's production requests, this long-term debt will be paid in full from the purchase proceeds and Mr. Greenwood does not intend to incur any other debt that would be secured by the assets of the water system as he begins the operation of the utility.

Engineering

Staff contacted the Idaho Department of Environmental Quality (DEQ) to ensure that Algoma is in compliance with DEQ regulations. DEQ informed Staff that the system is substantially in compliance, except that the system had no certified operator, as required by DEQ, at the time of discussions between Staff and DEQ. Algoma has since demonstrated to

Staff that a state-certified operator with Water Systems Management, Inc. has been hired to manage the system. Therefore, with a certified operator, Algoma will be able to satisfy that requirement of the state. This operator's company also provides 24-hour emergency response for maintenance needs. Staff is convinced that overall service of the Company is likely to improve due to the contract with Water Systems Management, Inc.

Algoma's system is currently non-metered. The previous owners of the Company had indicated interest in metering in the past, however, no meters have been installed. Staff addressed metering with the Company and learned that there are no future plans for meter installation.

Consumer Relations

A notice to Algoma's customers was filed with its Application. The notice was mailed to customers as required by the Utility Customer Relations Rules (IDAPA 31.21.02.102). The original notice mailed to customers with their April billing notice reflected an incorrect Commission mailing address. Staff brought this to the attention of the Company. A corrected notice was to be sent out but the Company has not provided Staff with a mailing date.

The Commission has received one inquiry and one complaint from January 2003 until September 11, 2006. The inquiry was asking for the name and address of then-new owner, Chris Neu. The Commission has received no complaints regarding customer service or billing practices during the time Mr. Neu owned the Company. In September 2006, a complaint was filed regarding the difficulty in contacting the billing agent for Algoma. The only phone number listed on consumer bills and notices is for Deal Pump & Electric. It should be made clear on all customer notices and billing statements that customers should contact Deal Pump & Electric for emergency repairs and to call the Company's bookkeeper for billing questions and to make payment arrangements. Further, as neither phone number will answer as "Algoma Water," customers need to be made aware of whom they are calling.

A review of Algoma's recently revised forms, notices and billing statement show the Company has taken the necessary steps to change their forms and come into compliance with almost all the Utility Customer Relations Rules (IDAPA 31.21.01.000 *et seq.*) and Utility Customer Information Rules (IDAPA 31.21.02.000 *et seq.*). Some changes, however, still need to be made to the customer notices and billing statement.

The Billing Statement does not clearly reflect a payment due date. The due date should be at least 15 days after the billing date. An Invoice Statement mailed with the Billing Statement includes a business term for payment due of "Net 15." Customers may not understand that terminology. Therefore, Staff recommends that the statement be revised to clearly reflect due dates.

The "Initial Notice" which provides customers with seven days to contact the Company to avoid disconnection, cannot include payment demand of past due sewer charges to avoid disconnection of water service. The listing of the phone number for an emergency contact set forth on the notice should inform customers they are calling Deal Pump & Electric, and not Algoma. Customers should be provided with the phone number for Algoma's bookkeeper, who also handles any billing issues.

The "Final Notice" has the phone number for an emergency repair contact rather than for the bookkeeper, who is the only person authorized to make payment arrangements and discuss billing questions. Her contact information should be clearly stated on the notice. Also, the amount stated for payment to avoid disconnection should not include any past due amount for sewer. The current example of a billing statement that was provided to Staff does not make it clear to customers that Algoma is not threatening disconnection of water for sewer charges that are past due to Northern Utilities Sewer (a separate business of the owner that serves the same customer base). The notice to customers of the possibility of disconnection because of overdue water charges should not contain any reference to sewer charges that may also be due and owing by the customer.

Lastly, the "Summary of Rules for Customers of Small Water Companies" document should reflect the phone numbers for Company contacts identical to those used in other customer notices. This document is the annual notice provided to customers of the tariff in place and rules of which customers should be aware, and is a key information piece to let customers know how to contact the Company in the event of issues or concerns. The contact information for billing issues and repair needs is imperative and should be clearly stated on this document.

The Staff recommends that the Commission approve the transfer of the Certificate of Public Convenience and Necessity for Algoma to Paul Greenwood. Staff further recommends that Algoma be directed to revise its billing statements to address the concerns set forth in Staff's comments.

COMMISSION DECISION

Does the Commission desire to approve the transfer of Certificate of Public Convenience and Necessity No. 396 for Algoma Water Systems to Paul Greenwood? Does the Commission desire to direct the Company to revise its billing statements to address the concerns set forth in Staff's comments?



Cecelia A. Gassner

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