

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF BAR CIRCLE "S" RANCH WATER) CASE NO. BCS-W-09-02
COMPANY, INC. FOR AN ORDER)
AUTHORIZING AN INCREASE IN THE)
COMPANY'S RATES AND CHARGES FOR) ORDER NO. 30970
WATER SERVICE IN THE STATE OF)
IDAHO)**

On June 19, 2009, Bar Circle "S" Ranch Water Company, Inc. (Bar Circle "S"; BCS; Company) filed an Application with the Idaho Public Utilities Commission (Commission) for authority to increase the water rates it charges its customers by approximately 119% (\$80,335). The Company also requested changes in certain non-recurring charges. The Company requested an effective date for new rates and charges of August 1, 2009. The Commission in Order No. 30861 suspended the requested effective date.

On September 30, 2009, Commission Staff held a public workshop for customers. The Commission received written comments and recommendations from Commission Staff as well as Company customers. A public hearing was held on October 29, 2009, where public testimony was recorded. On November 5, 2009, the Company in reply comments reduced its rate increase request to \$70,175 (104.34%). The Commission in this Order authorizes a \$55,734 revenue increase (or 82.87%) to be collected through a uniform increase in rates. We also approve changes to some of the Company's non-recurring charges, as more fully set forth below.

BACKGROUND

Bar Circle "S" is a water utility that provides water service to approximately 160 residential and commercial customers on the Rathdrum Prairie approximately 15 miles northwest of Coeur d'Alene in Kootenai County, Idaho. Certificate of Convenience and Necessity No. 296. The Company's principal office and place of business is located at 2953 North Government Way, Coeur d'Alene, Idaho.

Bar Circle "S" recurring and non-recurring rates and basic rates and charges for commercial and residential customers were established by Commission Order No. 22943 on January 23, 1990 (Case No. BCS-W-89-1). A subsequent tariff for commercial fire protection

service was authorized by the Commission by Order No. 29844 on August 16, 2005 (Case No. BCS-W-05-1).

A. The Current Application

Bar Circle "S" initially requested a 119.45% increase in revenue and proposed the use of its fiscal year ended November 30, 2008, as the test year. The Company proposed to spread the increase on a uniform basis to all rates and schedules resulting in a change in the metered water rate from \$15.00 to \$32.92 for the first 7,500 gallons, and a change in additional consumption charges from \$.95 to \$2.08 per 1,000 gallons. Commercial fire protection rates under the Company's proposal would increase from \$9.50 to \$20.85 per month for fire hydrants and the monthly rate for building sprinkler connections would increase from \$48.13 to \$105.62.

The Company also proposed changes to some of its non-recurring charges. These charges, the Company contends, are intended to cover the Company's costs only and do not contribute to the Company's earnings. The Company proposes to change its first-time connection fees from the current \$750 (\$500 for installation of water meter + \$250 for water hookup fee) to a basic meter installation fee of \$480 (when an existing service line and meter base is already in place). An additional charge of \$2,500 would be assessed if a service line or meter base is not in place. This charge, the Company states, pays the cost of excavation, tapping the water main, installing the service to the property line and installing the meter box and base. Additionally, if the Company must use boring equipment to install a service line under a road where excavation is not possible, the Company proposes to charge the actual cost of materials and labor to complete the installation.

Finally, the Company proposed to increase its existing customer reconnection charge (assessed to any customer who has been voluntarily or involuntarily disconnected in compliance with IPUC Uniform Customer Relations Rules) from \$10 to \$20 during normal business hours and an additional \$20 for service calls outside of normal business hours. The Company also requested a new returned-check charge of \$20 for reprocessing customer checks that have been returned by the bank for any reason.

B. Water System – Physical Plant

Bar Circle "S" has currently two production wells as sources of water supply. Well No. 1, located in a pump house on East Garwood Road, is a 6-inch well equipped with a 15-hp submersible pump with design capacity of 55 gpm. Well No. 2, located at Circle S Trail, is a 16-

inch well equipped with a 60-hp submersible pumping unit with a design capacity of about 483 gpm. Both pumping units at Well No. 1 and Well No. 2 are discharging water directly to a 185,000-gallon above-ground concrete tank located close to Well No. 1. Operation of the well pumps is controlled by switches tied to the water levels in the concrete tank. Four 10-hp centrifugal booster pumps operating in parallel are installed at the beginning of the distribution line shortly after the concrete storage tank. Each booster pump has a capacity of 180 gpm at 75 psi, or a total capacity of 720 gpm when all the booster pumps are running. In addition, one 110-hp fire pump operating in parallel with the booster pumps with a capacity of 1,500 gpm is also a key component of the system. Operation of the booster pumps and fire pump is controlled by changes of pressure in the distribution system via the hydro-pneumatic tanks. For normal operation, the pressure settings of the booster pumps range from 38 psi to 72 psi. The booster and fire pumps are equipped with a 250-kW backup power generation unit.

The distribution network is comprised mostly of 4-inch to 12-inch PVC pipes, although some older pipes are ductile and steel pipes. Water is delivered to various residential and commercial customers using manually read service meters with sizes ranging from ¾-inch to 3-inch meters.

C. Recent System Improvements

Since the Company's last rate case application in 1989 (Case No. BCS-W-89-1), Bar Circle "S" has undertaken several major improvements and expansion of the water system that include: (a) installation of a standby generator for the booster and fire pumps (2004); (b) replacements of the 60-hp pumping unit in Well No. 2 (several times); (c) mainline improvements (2002); (d) Garwood reservoir improvements (2001); and (e) well sites improvements (several times). In addition, the Company recently installed a 6-inch recording flow meter on the discharge side of the Company's booster pumps as required by the Idaho Department of Environmental Quality (IDEQ). The Company has plans to convert the Company's manual meter reading system to an automated electronic reading system.

Staff reviewed the monthly water production and consumption data for calendar years 2006, 2007, and 2008 and calculated the water losses due to leaks and unaccounted for water loss, which is measured by comparing water produced versus water that was metered and billed. The calculated average yearly water system loss is 18%, 13%, and 6% in 2006, 2007, and 2008, respectively. As part of its review of the water system, Staff also looked at both the water

quality and water rights issues to assure that the Company can adequately and reliably provide service. Based on Staff's inspection, it concludes that the Company's water system appears to be of sound design, in good condition and well maintained. The Company is in compliance with DEQ Rules for Drinking Water Systems. The Company water rights appear adequate to provide water to existing customers and future customers at full build-out of the present system.

Bar Circle "S" proposed an effective date for the rate increase of August 1, 2009. On July 15, 2009, the Commission issued a Notice of the Company's Application and by Order No. 30861 suspended the proposed August 1, 2009, effective date. The purpose of the suspension was to provide time for Commission Staff to audit the Company's financial books, inspect the company's physical plant, and complete its investigative report.

On September 10, 2009, the Commission issued a Notice scheduling a September 30, 2009, public workshop for customers in Rathdrum, Idaho. On September 23, 2009, the Commission issued a Notice of Scheduling establishing an October 23, 2009, filing deadline for the Staff Report (investigative report and recommendations). A public hearing for the purpose of taking public comments and testimony was held on October 29, 2009, in Rathdrum, Idaho. Transcripts were filed November 4, 2009. The Company filed reply comments on November 5, 2009. A November 6, 2009, deadline was established for filing written comments.

The Commission has reviewed and considered the filings of record in Case No. BCS-W-09-02 including the comments and recommendations of Commission Staff and customers and the Company's reply comments. We have also reviewed our Orders in prior Bar Circle "S" cases. We find that the public interest in the issues presented does not require a formal technical hearing.

REVENUE REQUIREMENT

Commission Staff in a report filed with the Commission on October 23, 2009, recommended a \$116,402 annual revenue requirement for Bar Circle "S", an increase of \$49,147 or 73.08%. (Compare Company initial request \$80,335 or 119%.) The Company by way of reply filed on November 5, 2009 accepted some of Staff's rate base and operating expense adjustments and amended its requested revenue requirement increase to \$70,175 or 104.34%. We find the uncontested portions of this rate case, those agreed to by the Company and Staff, to be reasonable. We address the contested areas and customer comments below.

A. Rate Base

Staff Rate Base Adjustments

The Company proposed a total rate base in this case of \$287,219. Staff recommended that the plant in service costs presented by the Company be adjusted downward in three accounts: (1) water line improvements (\$20,661); (2) equipment (fire hydrant locks) (\$1,171); and (3) Automated Meter Reading (\$44,985). Staff is proposing that the total rate base be \$207,891 or \$79,328 less than the Company proposal. Staff Report, Atch. 2. The Company agrees with Staff adjustments 1 and 2. The following adjustment of Staff remains contested:

(\$44,985) Automated Meter Reading (AMR).

Staff represented in its report that the Company had withdrawn its request to install the automatic meter reading system at this time (Staff Production Request No. 11, Part D) and removed all of the Company's pro forma adjustments for the AMR system. Staff Report, Atch. 4.

The Company in its filed reply states that it did not "withdraw its request" but rather pointed out a problem that was delaying the project. The Company states "the problem has been resolved and applicant is moving forward with the project. The meters are being ordered the week of November 1, 2009. Installation will commence as soon as the meters arrive. Applicant believes it will be able to complete the project before winter weather interferes."

Status Report: On December 11, 2009, Staff inquired and was informed that the AMR equipment has not been ordered.

Commission Findings

Bar Circle "S" is entitled to rates that will cover its operating costs and provide an opportunity to earn a reasonable rate of return on its investment devoted to utility business. Only "used and useful" property is permitted in rate base. The Commission finds that the Company to date has neither installed nor purchased automated meter reading equipment. While planned as a system improvement by the Company, we find that the proposed investment is still uncertain and speculative. We find no basis, therefore, for including the estimated AMR investment (\$44,985) in rate base and accordingly find it reasonable to exclude same. Consequently, we accept the proposed Staff adjustments to the Company's proposed rate base and find the Company has a current rate base of \$208,617 upon which it may earn a return. The difference between Staff's total rate base figure of \$208,891 and the Commission's is the calculated difference in working

capital, one-eighth of annual cash expenditures, a formula that both the Company and Staff recommend and that we find reasonable. See Attachment 2.

The Company in its Application and Staff in its report recommend that Bar Circle "S" be allowed a 12% equity return on its investment. We find that the equity return recommended is comparable to other small water companies with similar risks and accordingly authorize same. The \$208,617 authorized rate base produces a return of \$25,034 at the authorized 12% rate of return. This return must be grossed up to account for federal and state taxes that will need to be paid on this revenue. The net to gross multiplier is 128.09%. The resultant revenue requirement increase for return on rate base is \$32,066. See Attachment 1.

B. Annual Expenses

The Company in this case recommends a fiscal test year ending November 30, 2008. A test year is the latest 12-month period for which complete accounting data and financial records are available from the Company. Staff has audited the Company's books and utilizes the proposed test year as the base period in its audit. We accept the proposed test year, adjusted for fixed, known and measurable changes, as reasonable.

Staff Expense Adjustments – Staff Report, Attachment 3

The Company provided financial information for the 2008 test year showing gross revenue of \$67,255 and annual pro forma operating expenses of \$106,354 for a net operating deficit of (\$39,099). Staff proposed five adjustments to the Company's operating expenses: (1) eliminate \$7,950 of labor costs (\$6,000 water master and \$1,950 administration/bookkeeping); (2) increase pumping power costs by \$2,445 to recognize Kootenai Electric rate increase; (3) eliminate \$818 of normalized water testing expense; (4) eliminate \$12,628 of professional expense; and (5) reduce depreciation expense by \$4,316 to recognize Staff's rate base adjustments. Attachment 3. The following operating expense adjustments of Staff remain contested:

Labor Expenses

The Company is asking that the annual operating expense amount for water master be increased from \$7,200 to \$18,000. The service is provided by Avondale Construction Company, an affiliate of Bar Circle "S". The charges paid to Avondale include direct labor costs as well as employer provided taxes and benefits including unemployment insurance, FICA taxes, worker's compensation insurance, health insurance, vacation pay, sick pay, etc. In addition, Bar Circle

“S” owns no utility vehicles. The labor charges paid to Avondale also include all vehicle related operating expenses including fuel, depreciation, insurance, taxes, repairs and maintenance. Avondale provides these services for a flat monthly fee regardless of the number of hours required to operate, maintain and manage the water system. The Company contends that charges for minimal water management and maintenance services provided by other companies would be \$1,400 to \$1,500 per month. Any required work beyond routine maintenance would be charged an extra hourly rate.

The increase requested by the Company is an annual increase of \$10,800 or 150%. This increases the monthly amount for water master services from \$600 to \$1,500. Staff reports no significant increase since test year 2008 in required labor or services. Staff contacted other providers of water master services for a cost comparison. Staff contends that the size of the increase requested by the Company cannot be justified. Staff recites one instance where a water company pays \$1,300 per month for water master services for an area water system serving 300 customers. Staff does believe, however, that some increase is warranted and recommends that the contract amount be increased from \$7,200 to \$12,000, a 67% increase (from \$600 to \$1,000 per month). Staff Report, Atch. 3, line 7.

The Company in reply states that the water master expense includes not only the minimum water master service required to meet Idaho Department of Environmental Quality requirements (the type of services provided by the water masters Staff contacted – maximum service including total management operator, maintenance, customer billing, etc. or something in between) – but additionally all routine operation and maintenance costs of the Company on a daily basis including well and reservoir inspections, patrolling the service area water mains daily to identify leaks and damage to the system and making minor repairs to the distribution system as necessary. The Company distinguishes the services Avondale provides from the water master services provided for \$1,300 per month under Staff’s example. The Company believes that with the additional services provided it is being frugal in its request. The Company points out that water master labor costs paid to Avondale have not increased since 2004.

Commission Findings

Bar Circle “S” proposes to increase the amount paid by the Company for water master services from \$7,200 to \$18,000 per year (from \$600/month to \$1,500/month). Staff

recommends an annual amount of \$12,000 or \$1,000 per month. As represented, the fee for water master services has not increased since 2004. Staff reports no change in water master duties since the 2008 test year. We note that the water master services are being performed by an affiliate of the Company, Avondale Construction. The affiliate also provides water master services for a sister water company, Diamond Bar Estates Water Company. Utility transactions with unregulated affiliate companies must receive a greater degree of scrutiny, and the Company has the burden to come forward with substantial evidence establishing that increases and amounts paid to unregulated affiliate companies are just, reasonable, arms-length, least-cost transactions. The additional increases requested by the Company are not adequately supported. We find the record in this matter is conflicting and not subject to mathematical certitude. Some increase is warranted, however, and on the established record we find it just and reasonable to authorize an annual increase for water master services from \$7,200 to \$14,400 (or \$1,200/month).

The Company is asking that the annual amount for bookkeeping, filing and general office management services be increased from \$8,850 to \$10,950, an increase of \$2,100 or 24%. The service is provided by Avondale Construction Company, an affiliate of BCS.

The Company, Staff points out, only reads meters and calculates statements based on water usage for six to seven months of the year depending on weather conditions. For other months (because meters may be buried in the snow), the Company bills only the basic charge. If the Company converted to an automated meter reading (AMR) system, customers would be billed on actual usage every month. This would require additional bookkeeping services. Because Staff believes AMR is not being implemented, Staff believes additional services are not required and the increase for bookkeeping should not be allowed. Staff increased the annual test year amount by \$50, however, to allow for an increase in postage and other increased costs related to billing. Staff Report, Atch. 3, line 14.

The Company contends that Staff incorrectly assumes that the AMR project was canceled. The Company states also that Staff ignores other services provided in addition to bookkeeping, including bill payments, bank reconciliation, phone answering service, dispatching, dealing with regulatory agencies or any other general office management service. The Company points out that its bookkeeping labor costs have not increased since 2005.

The administrative and bookkeeping services provided by Avondale, the Company points out, include direct labor costs as well as employer provided taxes and benefits including unemployment insurance, FICA taxes, worker's compensation, insurance, health insurance, vacation pay, sick pay, etc. Application, p. 6. Simply put, the affiliated company, Avondale Construction, its owners and employees, BCS contends, have been subsidizing the water company for a number of years.

Commission Findings

Bar Circle "S" requested that the authorized administrative/bookkeeping expense be increased from \$8,850 to \$10,950 per year (\$737/month to \$912/month). Staff recommended an annual increase of only \$150. The services again are performed by Avondale Construction, an affiliate of the Company, and are subject to a higher level of scrutiny. As with water master services, similar services are provided by Avondale to the Company's sister water company, Diamond Bar Estates Water Company.

The Company's administrative/bookkeeping costs have remained unchanged since 2005. The increased duties that would accompany implementation of AMR are speculative. We find the record on this expense item to be conflicting. However, we again find that some increase is warranted. Based on the established record, we find it reasonable to authorize a portion of the Company's request and authorize an increase of \$1,050 per year resulting in an allowed amount for administrative/bookkeeping services of \$9,900 per year (or \$825 per month).

Professional Services

The Company included \$13,128 in its proposed annual expenses for professional services. Staff reduced this amount by \$12,628 to a balance of \$500. The Company, Staff contends, included \$12,628 of expense paid to consultants and engineers for services related to the preparation and approval of the intertie between the BCS system and the Double T Estates subdivision. These are not costs, Staff contends, that the customers of BCS should be required to pay. The Commission in its Order No. 30731 approving expansion of its service area to include Double T subdivision stated "Pursuant to the terms of the Water Main Extension Agreement, the developer of Double T subdivision agrees to pay BCS for the cost of construction of the water main extension and related water system improvements to provide service to the Double T Estates subdivision." Additionally, these costs, Staff contends, are of a one-time nature and are

not recurring, and should not be included as an ongoing operational expense. Staff allows \$500 as a reasonable amount for annual professional services.

The Company, in its reply, contends that Staff mistakenly assigns all these costs to approval of the interconnection and assumes such costs have no benefit to the system as a whole. The Company submitted copies of e-mail correspondence between BCS Consultant and DEQ in Coeur d'Alene (Exhibit 9). This correspondence, it contends, indicates that as early as 2004, DEQ was concerned about the general capacity of the BCS system and was requesting a comprehensive water production and demand monitoring system. This hydraulic analysis, BCS contends, would have been required, with or without Double T Estates. Further, Staff has not reviewed, BCS contends, the ongoing nature of professional fees BCS has realized. The Company states it has incurred professional outside service expenses for engineering, legal and consulting services (excluding taxes) of \$3,400 in 2005, \$1,300 in 2006, \$445 in 2007, and in 2009 an additional cost of \$4,400 related to the water system hydraulic modeling project. Additionally, the Company notes that the IDWR has begun an adjudication project for the Rathdrum aquifer and BCS expects to incur further legal costs to ensure and protect its water rights. BCS believes an annual professional fees expense allowance of at least \$5,000 in addition to the cost of tax preparation (\$500) is justified and is not unreasonable.

Commission Findings

Bar Circle "S" in its reply reduced its proposed annual expenses for professional services from \$13,128 to \$5,500. Staff recommends \$500 for tax expense, contending that the other expenses identified by the Company are not of a recurring nature. While Staff's position has some merit, we nevertheless find it reasonable to expect that the Company will incur ongoing professional services to satisfy IDEQ requirements and to protect its water rights in the IDWR adjudication. We find the record in this case does not permit an exact assessment of annual professional costs. Looking at the expenses detailed above, we find it reasonable to authorize annual professional expenses in the amount of \$3,000.

Depreciation Expense

The annual depreciation expense determined by Staff is \$15,989, \$4,316 less than the amount claimed by the Company, due to Staff's adjustments to rate base. Staff Report, Atch. 3, line 25. We approved the Staff-proposed rate base adjustments. The calculation of related depreciation is a mechanical process to match the rate base allowed.

Rate Case Expense

The Company in its Application estimated \$6,668 in rate case expense and proposed recovery of same over a three-year amortization schedule. Staff proposes a five-year amortization period or \$1,334 per year.

In its reply, the Company states that it has incurred additional rate case expenses (\$1,680 to prepare discovery responses; \$2,125 to analyze Staff's report and prepare reply) and expects to incur \$255 in further estimated rate case expense to prepare and file compliance tariffs. This increases the requested rate case expense from \$6,667 to \$9,992. The Company renews its request for a three-year amortization period.

Commission Findings

It has been 18 years since the Company's last rate case. We find the Company presented a technically sound rate case that aided us in our analysis and consideration of issues. We find the \$9,992 amount for rate case expense requested for the Company in its reply to be reasonable. However, given the length of time since the Company's last case, we authorize recovery of the expense over a five-year amortization period, not the three years requested by the Company.

Revenue Requirement Calculation

The total revenue requirement increase in this case is calculated by adding the net operating loss of (\$21,670) to the grossed-up revenues of \$32,066 for total required increase of \$53,736. When \$1,998 for rate case cost recovery is added to the revenue requirement increase of \$53,736, the end result is that the Company's rates should be increased by a total of \$55,734. The Company is currently receiving revenues of \$67,255; therefore, we find the Company is authorized a revenue increase of 82.87%. Attachments 1 and 3.

RATE DESIGN

Bar Circle "S" proposed a uniform increase to all rates and charges contained in its current water rate schedules. The Company believes that an equal percentage increase to all customer rate schedules is the most equitable and fairest approach. Staff investigation reveals that consumption patterns have not changed significantly since the Commission established the current rate schedules. Staff sees no reason to change the rate structure and agrees with the Company proposal for a uniform rate increase.

Staff reviewed the average monthly usage during the three winter periods of 2005 to 2006 to 2007 to 2008. The monthly usage ranges from a low of 7,668 to a high of 10,048 or an average of 8,925 gallons per customer. Staff believes that it is still reasonable to maintain the first 7,500 gallons of water use as a basis for the fixed charge. Staff further believes that the commercial usage and the small number of commercial customers are not significant enough to warrant a different rate design for commercial customers.

Based on the Commission's authorized revenue requirement increase of \$55,734, a rate increase of 82.87% is required. We find it fair, just and reasonable to increase the Company's water rates for metered usage and commercial fire protection service by a uniform 82.87%. Attachment 4. With this change, the monthly rate for a residential customer will increase from \$15 to \$27.43 for the first 7,500 gallons of water usage. Charges for usage over 7,500 gallons will increase from \$.95 to \$1.74 per 1,000 gallons. The average monthly cost for a residential customer using Commission-authorized rates with an average usage of 27,056 gallons per month will increase from \$33.58 to \$61.46.

Non-recurring Charges – Contested

- New Customer Charges

A. The Company at present has an approved non-recurring charge of \$750 for new customers connecting to the water system for the first time. This fee is comprised of \$500 for installation of the water meter and \$250 for water hookup. Bar Circle "S" is proposing a basic installation fee of \$480 *if an existing service line and meter base are already in place*. This amount includes \$392 for the cost of a new meter and \$88 for 3.5 hours of labor to purchase, deliver and install the meter.

Staff notes that there are 28 vacant undeveloped properties within the service area excluding the recently approved Double T Estates expansion. All of these lots have a main line service tap, service line to the property, meter box, meter base and five foot stub outline on the customer's side of the meter box.

Staff believes the proposed connection cost for new customers is too high. First, in Commission Order No. 30455 (Case No. DIA-W-07-01, Diamond Bar Estates Water Company) issued on October 22, 2007, the Commission approved a connection fee of \$310 for new customers with meter box already in place. Diamond Bar is in close proximity with Bar Circle "S" and both systems are owned and operated by Mr. Robert M. Turnipseed. Second, the quote

provided by the GenPack Water to Bar Circle "S" for a 1-inch record M70 meter with register and Orion transmitter with cable is \$279 for a 1-inch meter and \$230 for a ¾-inch meter. Third, an independent quote obtained by Staff from a service meter dealer in Coeur d'Alene indicated a cost of \$207 for a ¾-inch and \$301 for a 1-inch meter. Assuming that the remaining undeveloped properties will be requesting installation of a 1-inch meter (90% of the meters installed in Bar Circle "S" are ¾-inch meters), Staff believes a meter cost of \$301 is reasonable. Adding \$88 for labor in installing the meter base on Company estimate to the cost of meter (\$301), the estimated total cost for new hookup is \$389. Allowing a minor amount for contingencies, Staff recommends that the hookup fee for new installation when existing service line and meter base are already in place be set at \$400.

Commission Findings

The Company proposes that the charge for new customers connecting to the water system for the first time be reduced from the existing \$750 to \$480 if an existing service line and meter base are already in place. The Company includes \$392 for the cost of a new meter. Staff contends that a meter cost of \$301 is more reasonable. Staff recommends a hookup fee for new customers (if an existing service line and meter base are in place) of \$400. The Company did not address Staff's adjustment in its reply. We find that \$400 charge reasonably reflects the costs of providing service to new customers where there is an existing service line and meter base. This charge is supported by substantial evidence in the record.

B. The Company is also proposing to charge new customers a \$2,500 connection fee *when there is no service tap to the Company's water main or no meter box is in place* on the property. Staff does not disagree with the Company on the amount of the \$2,500 connection fee, but questions the merit of putting this into the Company's tariffs when the Company is not expecting a new connection with this condition. Staff recommends that this proposed connection fee be denied at this time.

Commission Findings

The Company proposes a \$2,500 charge for new customers if there is no service tap or meter box in place. Staff contends that such service conditions do not exist on the Company's existing system and recommends at this time that the proposed charge be denied. We find no need to include this charge in the Company's tariff. The Company can request this charge later should its service territory be expanded and service conditions change.

Miscellaneous Administrative Housekeeping

Bar Circle "S" proposes to remove the charges for new customer connections from its existing non-recurring charges schedule to a new separate schedule. Staff does not oppose the proposed change and recommends approval of the Company's request. We concur.

Bar Circle "S" is also proposing to model its proposed tariff schedule after the current Commission-approved rate schedule for Diamond Bar Estates Water Company. Bar Circle "S" is located within a few miles of Diamond Bar Estates and the Company utilizes the same suppliers and materials, equipment and labor. Staff agrees with the Company's request. We concur.

Non-recurring Charges – Uncontested

The Commission has considered the following changes in non-recurring charges proposed by the Company. The charges are uncontested. We find they are reasonable.

- Returned Check Charge – \$20

The Company has requested a returned check charge. The amount requested in the Application's narrative is \$20. A returned check charge reduces the cost incurred by the Company when a deposited check is returned by the customer's financial institution for any reason, including non-sufficient funds. A \$20 returned check charge is consistent with what other regulated utilities charge and meets statutory requirements. Staff recommends approval of a \$20 returned check charge.

- Reconnection Charge –
During normal business hours (after voluntary disconnection) – \$20

The Company proposes to increase its charge for reconnections requested during normal hours from \$10 to \$20. This charge applies to reconnections performed following an involuntary disconnection of service for non-payment. Normal business hours have been identified by the Company as 8:00 a.m. to 5:00 p.m. Monday through Friday excluding legal holidays recognized by the State of Idaho. Staff recommends approval of the proposed reconnection fee during normal business hours. The Company's requested amount is consistent with charges authorized by the Commission for other regulated utilities.

- Reconnection Charge –
Outside normal business hours (after involuntary disconnection) – \$40

The existing Company tariff includes a \$15 charge for reconnections for other than normal business hours. Based on discussions with the Company, it is Staff's understanding that

the Company wishes to increase the charge for reconnection after an involuntary disconnection for non-payment from \$15 to \$40. Staff agrees that there are normally additional costs associated with dispatching personnel outside of normal business hours to reconnect a customer's service. Staff recommends approval of the proposed \$40 charge. The charge is within the range of reasonable charges previously approved by the Commission for other regulated utilities. Staff will work with the Company to clarify its tariff.

- **Customer-requested Service Call Charge – \$20**

The Company currently does not charge customers for work performed during normal business hours for such services as turning on service for a new customer or shutting off and turning on service associated with maintenance or repair of a customer's service line. The Company has requested a \$20 charge for all customer-requested service calls during times other than normal business hours. This after-hours charge will not apply to work done to the Company's facilities or work performed after hours for the convenience of the Company. It is not clear to Staff why the Company is requesting a charge for after-hours service calls that is half the amount requested for after-hours reconnection of service following a disconnection for non-payment. Because cost data is not available, Staff recommends approval of the proposed \$20 charge. Staff will work with the Company to clarify the language in its tariff to describe the circumstances under which the charge would apply.

Commission Rules and Regulations

Staff recommends that the Company adopt the Model Tariff for Small Water Utilities developed by Staff including the most recent version of the General Rules and Regulations for Small Water Utilities and the Commission's Uniform Main Extension Rules for Small Water Utilities; that the Company review and update all notices, bills and other documents to comply with the Commission's Utility Customer Relations Rules (IDAPA 31.21.01); and that the Company create a Rules Summary and distribute it to its customers upon initiation of service and annually thereafter (UCRR, Rule 701). We find Staff recommendations reasonable and direct the Company to work with Staff to bring it into compliance with Commission Rules and Regulations.

Customer Testimony/Comments

The Company's customers through testimony and comments have raised numerous issues regarding the proposed rate increase, the economy in northern Idaho, rate affordability, the

landscaping requirements included in the Bar Circle "S" subdivision covenants, the desire of many to maintain a property with curb appeal, and the Company's service obligations.

As reflected in the Commission's Order in the Company's 1989 rate case, the Bar Circle "S" subdivision Recorded Covenants contain the following provision:

The amount of water supplied per tract by the Bar Circle "S" Ranch, Inc. is the amount normally used in (1) single family residence and enough to irrigate one acre. The Bar Circle "S" Ranch, Inc. can require, if in the interest of the development, the tract owners to limit usage of water to this amount.

Order No. 22943, p. 3. The record in this case reveals that some Bar Circle "S" customers have five-acre tracts and up to three to four acres of irrigated grass. Others have extensive outdoor landscaping, gardens and pastures.

The Commission has looked at the monthly water usage data for Bar Circle "S" customers (Staff Report, Attachment 7), and reviewed the filed comments and transcript testimony of customers regarding irrigation practices. We have looked at the minimum, maximum, average and medium monthly use. The Company's usage peaks are during the summer irrigation season. We find water use by Bar Circle "S" customers during the summer is not uniform. Indeed, the monthly water use of some customers at this time of year is five to six times the system average, approaching nearly 500,000 gallons per month.

Summer is a time when this Commission encourages all water utility customers to conserve water as much as possible so that costs are more controlled. There are cost-effective water conservation measures that all customers can implement in both the home and the yard to reduce or eliminate inefficient or wasteful usage. Many areas in Idaho face serious water shortages and even drought. Bar Circle "S" customers report experiencing water pressure problems in the summer. Some customers water at night when the pressure is greatest to avoid low pressure during the day. This variation in water pressure, we find, reveals that the Bar Circle "S" system limits are being challenged. We offer water conservation tips on our web page, www.puc.idaho.gov. Water is a precious resource, drinking water even more so. Bar Circle "S" draws its water from the Rathdrum Prairie Aquifer, a shared resource that serves many communities. We encourage customers to use water wisely. Water conservation will help alleviate any pressure problems on the BCS system. It will enable the Company to provide safe, reliable service at reasonable prices. It will also provide customers with an opportunity to reduce their water bills and save money.

The Commission notes that some customers believe that the Company is subsidizing its Double T Estates development with Bar Circle "S" revenue. We assure customers that any costs that the Company may have accrued that benefited Double T were removed from the calculation of the revenue requirement. As reflected in our original Order approving an expansion of the Company's Certificate

Pursuant to terms of the Water Main Extension Agreement, the developer of Double T Estates Subdivision agrees to pay Bar Circle "S" for the cost of construction of the water main extension and related water system improvements to provide service to the Double T Estates subdivision. The developer's contribution of Double T Estates' main line and service improvements is to be recorded on the Company's books as a contribution in aid of construction. We reserve judgment regarding the allocation ratio of other costs between Bar Circle "S" and Double T Estates pending application by the Company for recovery of such costs and a determination by the Commission as to the prudence of the Company's investment and assessment of the related benefits accruing to Bar Circle "S".

Customers contend that a rate increase of the size requested by the Company is in these economic times unreasonable. Bar Circle "S", we note, has not had a rate case in 18 years. By law, the Company is entitled to recover its reasonable expenses and a reasonable return on investments to serve the public. We have a statutory duty to customers and the Company to calculate rates and charges that are fair, just and reasonable. *Idaho Code* § 61-502 – Determination of Rates. The fact that the Company waited many years to request an increase does not change the evidence presented in this case.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over Bar Circle "S" Ranch Water Company, a water utility, and the issues presented in Case No. BCS-W-09-02 pursuant to Idaho Code, Title 61, and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

ORDER

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED that Bar Circle "S" Ranch Water Company's request for a general rate increase is approved as modified in the body of this Order. The Company is authorized to collect an additional \$55,734 per year, an increase of 82.87%. See Attachment 1.

IT IS FURTHER ORDERED that the revenue increase authorized by this Order be recovered by a uniform 82.87% increase to the Company's Schedules and Rates for Metered Water and Commercial Fire Protection. Attachment 4.

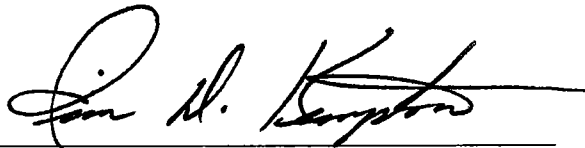
IT IS FURTHER ORDERED and as more particularly described and qualified above, the Commission approves changes to the Company's non-recurring charges for new customer connections, returned checks, reconnection and customer-requested service calls.

IT IS FURTHER ORDERED that the rates, tariffs and charges authorized in this Order shall become effective for service on or after January 1, 2010. The Company is directed to submit revised tariffs that mirror the rates and charges set out in this Order.

IT IS FURTHER ORDERED and the Company is directed to update its utility tariffs, documentation and practices to bring it into compliance with current Commission Rules and Regulations for Small Water Utilities.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 30th
day of December 2009.



JIM D. KEMPTON, PRESIDENT




MARSHA H. SMITH, COMMISSIONER



MACK A. REDFORD, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

bis/O:BCS-W-09-02_sw4

Bar Circle "S" Water Company
Calculation of Revenue Requirement

	Company	Staff	Commission
	(A)	(B)	(C)
1 Rate Base	\$287,219	\$207,891	\$208,617
2 Rate of Return	10.59%	12%	12%
3 Net Operating Income Requirement	\$30,407	\$24,947	\$25,034
4 Net Operating Income Realized	-\$39,099	-\$15,832	-\$21,634
5 Net Operating Income Deficiency	\$69,506	\$40,779	\$46,668
Revenue Requirement Increase to			
6 Net Operating Loss	\$39,099	\$15,832	\$21,634
7 Incremental PUC Fees @ 0.1662%	\$65	\$26	\$36
8 Gross Revenue Requirement to Overcome Loss	\$39,164	\$15,858	\$21,670
Revenue Requirement Increase			
9 Subject to Income Tax	\$30,407	\$24,947	\$25,034
10 Tax Gross-up Factor 128.09%			
Required Revenue Increase			
11 Subject to Gross-up	38,948	\$31,955	\$32,066
12 Revenue Increase Required	\$78,112	\$47,813	\$53,736
13 Amortize Rate Case Expenses	\$2,223	\$1,334	\$1,998
14 Total Revenue Increase Required	\$80,335	\$49,147	\$55,734
15 Total Revenue Collected in Test Year	\$ 67,255	\$67,255	\$67,255
16 Revenue Increase %	119.45%	73.08%	82.87%

Tax Gross-up Factor Calculation

Gross-up Factor Calculation

17	Net Deficiency	100%
18	PUC Fees	0.1662%
19	Bad Debts	0.0000%
20	Taxable Amount	99.8338%
21	State Tax @ 8%	7.9867%
22	Federal Taxable	91.8471%
23	Federal Tax @ 15%	13.7771%
24	Net After Tax	78.0700%
25	Net to Gross Multiplier	128.09%

Bar Circle "S" Water Company
 Calculation of Rate Base

	(A)	(G)		
		Per Company		Per Commission
	Books	Adjusted	Per Staff	
		Total		
1 Plant in Service	\$337,592	\$407,512	\$ 330,695	\$ 330,695
2 Abandonment Costs		4,500		
3 Accumulated Depreciation	<u>135,217</u>	<u>135,550</u>	\$ (131,191)	\$ 131,191
4 Net Plant in Service	\$202,375	\$276,462	\$ 199,504	\$ 199,504
5 Working Capital		<u>10,756</u>	\$ 8,387	\$ 9,113
6 Total Rate Base		\$287,219	\$ 207,891	\$ 208,617

Bar Circle "S" Water Company
Income Statement

	Company		Staff's Adjustments					Commission Decision		
	Per		Books	Proforma	Labor Charges	Kootenai Electric Power Increase	Water Testing Charges		Professional Fees	Depreciation Expense
REVENUE										
1 Metered Residential Revenue	65,122	65,122								65,122
2 Fire Protection	1,383	1,383								1,383
3 Hook-up Fees	750	750								750
4 Gross Revenue	67,255	67,255								67,255
OPERATING EXPENSES										
5 Operating Labor	10,585	8,660								8,660
6 Meter Reading	2,224	2,224								2,224
7 Water Master Labor	7,200	18,000		(6,000.00)						12,000
8 Pumping Power Expense	15,033	15,033				2,445.00				17,478
9 Heating Exp (Wells & Res)	41	41								41
10 Pump & Reservoir Alarm Exp	528	528								528
11 Water Testing Expense	344	1,565					(818.00)			747
12 Locate Expenses	132	552								552
13 Materials & Supplies - O&M	4,588	4,588								4,588
14 Admin Labor - Bookkeeping	8,850	10,950		(1,950.00)						9,000
15 Admin Materials & Supplies	1,407	1,407								1,407
16 Rent Expense	2,400	2,400								2,400
17 Professional Fees	13,128	13,128						(12,628.00)		500
18 Regulatory Fees	886	886								886
19 Professional Dues	300	300								300
20 Professional Education	75	75								75
21 Insurance Expense	2,903	2,903								2,903
22 Property Taxes	882	882								882
23 State Income Taxes	632	632								632
24 Federal Income Tax	1,297	1,297								1,297
Subtotal of Operation Expenses	73,434	86,049							(4,316.00)	72,900
25 Depreciation Expense	12,989	20,305								15,989
26 Total Operating Expenses	86,423	106,354								88,889
27 Net Operating Income/Deficit	(19,168)	(39,099)								(21,634)

