DECISION MEMORANDUM

TO:COMMISSIONER HANSEN

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COMMISSIONER SMITH

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JEAN JEWELL

MARGE MAXWELL

DAVID SCOTT

WORKING FILE

FROM:SCOTT WOODBURY

DATE:JANUARY 28, 1999

RE:CASE NO. BRN-W-98-1 (BRIAN WATER)

RATE CASE

On August 3, 1998, Brian Water Corporation (Brian Water; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting a 10% increase in tariffed rates to build up depleted cash reserves to take care of “future emergency repairs such as water line breaks and replacement of the backup pump and regular maintenance.”

Brian Water is a regulated water utility providing water service under Certificate of Public Convenience and Necessity No. 260 to 47 residential customers in Brian Park Subdivision, a development located in Ada County, Idaho, a few miles east of Boise along old State Highway 21.  The Company is registered with the Idaho Secretary of State as a not-for-profit corporation.

The Company’s water rates were last adjusted by the Commission in Order No. 22880 issued December 12, 1989.  The Company’s proposed rate increase, if authorized, would change rates as follows:

|  |  |  |
| --- | --- | --- |
|  | Existing Rates | Proposed Rates |
| 0-4,000 gal/mo (min chg)Each add’l 1,000 gal/mo | $7.91$0.83 | $8.70$0.91 |

As reflected in the Company’s filed 1997 annual report, Brian Water received annual revenue in 1997 of $9,831.07 from annual metered sales of 8,529,000 gallons. The proposed increase would generate approximately a $980 increase in annual revenue.

Included with the Company’s Application are comparative balance sheets for the latest three years ending December 31, 1997, a schedule of operation and maintenance expenses, a summary of earnings and rate base, a statement of income at present and proposed rates, a description of pro forma adjustments and an engineering report for test year ending December 31, 1997.

A Notice of Application in Case No. BRN-W-98-1 was issued on August 26, 1998.  On January 22, 1999, following completion of its investigation into the Company’s filing, Commission Staff filed a report with the Commission Secretary containing its findings and recom­men­da­tion (attached).  Staff’s investigation included a review of the Commission’s past case files, annual reports filed with the Commission, prior audit reports, PUC complaint records, and on-site visits to review the Company’s financial records and physical plant in service.

Staff Recommendation

Although the Company has requested only a 10% increase in rates, Staff has determined that to provide for the Company’s present and future viability, a $3,105 or 31% increase in annual revenues is required.

Staff further recommends that the calculated revenue requirement be collected by increasing the Company’s rate base for the first 4,000 gallons per month from $7.91 to $10.50 and increasing the excess commodity charges (over 4,000 gallons per month) from $0.83 to $1.08 per 1,000.  Staff calculates that this rate change, on average, will result in an increase in the base rate of approximately $31 per year per customer and an increase in the commodity charge of approximately $34 per year per customer, a total increase to customers of approximately $65 per year.

Staff Analysis

Brian Water has two wells, the large well producing approximately 160 gallons per minute and the small well producing approximately 110 gallons per minute.  The large well pump was replaced in 1997, at a cost of approximately $6,900.  There is no master meter, however, each customer is metered.  Two customers located on the far east end of the service line are served using booster pumps and tanks.  No major repairs or modifications to this system are planned at this time.

The Staff-adjusted Company revenues for a 1997 test year are $10,814.  After Staff adjustments to the Company’s accounts, the test year total operating expenses were determined to be $10,850.  Company and Staff adjustments to the test year are proposed to account for increased laboratory analytical costs of an average of $579 per year.

The rate base for Brian Water is composed of major improvements and repairs made to the system.  The original cost of the developer installed system including the wells, pressure vessel, electric controls, well house and distribution system are considered contributed property under Commission Rule 103.  Reference IDAPA 31.36.01.103.  The rate base was increased to account for the installation of a new primary well pump in 1997, at a cost of $6,900.  The total adjusted rate base of $13,855 includes adjustments for the new pump, meters and instrumentation.

Staff has utilized a rate of return on rate base of 12%, assuming the equity return authorized by the Commission for several years on small water systems.  Staff believes that a 12% equity return continues to be reasonable.  The capital structure of Brian Water is entirely owner-equity; the Company has no debt.  This equity return when applied to the rate base produces a net income of $1,663.  Expenses of operating the system ($10,850), when added to the pre-tax income  requirement ($2,086), produce a total revenue requirement of $12,936.

The Company’s actual 1997 test year revenues were $9,831.  The revenue requirement calculated by Staff, $12,936, is $3,105 greater than the actual revenues collected during the test period and indicates that the gross revenue must be increased.  The Staff’s recommended increase of $3,105 is primarily attributable to the increases in rate base, the return on that rate base, and reasonable expenses.  It is in the customer’s best interest, Staff contends, to establish a revenue requirement that will allow the Company to meet the maintenance and operation obligations as they come due, as well as make the necessary repairs and replacements to the system in a timely and efficient manner.

The rate design analysis of Staff was based on a revenue requirement for the Company of $12,936; 47 hook-ups in the water system; a 4,000 gallon per month consumption allowance; and retention of the current metered customer rate structure (base rate and excess commodity charges).  The test year consumption of 6,469,590 per year was used in the rate design.  It was noted that this approximates the three year (1995-1997) average consumption of 6,275,700 gallons per year.  The rate design recommended by Staff is a base service charge at $10.50 per month and the commodity charge set at $1.08 per 1,000 (above 4,000 gallons).

Commission Decision

Does the Commission find Staff’s analysis and recommendations in this matter to be fair, just and reasonable?  If so, Staff recommends that further Notice in this case issue with proposed adoption of Staff recommended revenue requirement and rate design and that the matter be processed pursuant to Modified Procedure with a 30-day comment period.  Based on comments received, the Commission can then determine whether it is reasonable to establish a hearing for public testimony.  Does the Commission agree with Staff’s recommended procedure?  If not, what is the Commission’s preference?

Scott Woodbury

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