

KRISTINE A. SASSER
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0357
BAR NO. 6618

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UTILITIES COMMISSION

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5983

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)
MAYFIELD SPRINGS WATER COMPANY,) **CASE NO. MSW-W-08-1**
INC. FOR A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY)
)
) **COMMENTS OF THE**
) **COMMISSION STAFF**
)

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of Record, Kristine A. Sasser, Deputy Attorney General, submits the following comments in response to Order No. 30524 issued on April 9, 2008.

BACKGROUND

On February 5, 2008, Mayfield Springs Water Company, Inc.¹, an Idaho corporation, filed an Application requesting a Certificate of Public Convenience and Necessity to provide water service as a public utility. *Idaho Code* § 61-526; IDAPA 31.01.01.111. The Application states that the Company provides water service within the Arrowrock Subdivision in Kuna to 38 residential customers, 17 connections taking service during the construction of residential dwellings, and 1 customer taking service to water common areas. The Company maintains that

¹ Formerly Idaho Springs Water Company, ISW-W-08-1. See Notice of Name Change issued on May 12, 2008.

additional development of the Arrowrock Subdivision and surrounding territory could increase the number of customers to more than 200.

The Company asserts that the proposed service area is not within, and therefore will not interfere with, the authorized territory of any other public utility water corporation. The Application contains exhibits regarding the proposed service area, technical drawings and maps submitted to the Idaho Department of Environmental Quality, consumptive use figures, and other financial data.

The Company initially proposed a rate for residential customers that would include a set monthly charge and an additional, variable, amount determined by monthly consumption. It anticipated a residential monthly charge between \$50 - \$100 per customer. An amended Application filed by the Company on April 25, 2008, proposed a monthly base rate of \$81.60 for the first 10,000 gallons, and \$0.000651 for each gallon in excess of 10,000 gallons.

The Commission approved the following interim water rates (subject to refund): \$25 flat fee per month for connections to lots upon which construction of a residential dwelling is occurring, \$50 flat fee per month for residential customers, and \$800 flat fee per month for water service to common areas. Order No. 30512.

Several informal consumer complaints and one formal consumer complaint have been filed with the Commission against the Company alleging that it has been operating without the proper authorization of the Commission.

STAFF ANALYSIS

Staff Revenue Requirement Analysis

Staff examined the books and records of the Company for the fiscal year ending December 31, 2007. The expenses incurred by the Company during 2007 were used as the basis for establishing the operating and maintenance expenses included in rates.

Expenses and Rate Base

Expenses

The Company submitted financial records detailing its annual operating costs as \$82,697.81. From this amount, the Company reduced the amounts as follows:

Annual Costs	\$82,698
Less: Unrelated Legal Fees	\$20,541
Meters (Capitalized)	\$13,367
Meter Fittings (Capitalized)	\$ 1,070
Add: Capital Sinking Fund	\$13,080
Total Annual O & M Expenses	\$60,800

A more detailed breakdown of the Annual Costs is set forth in Attachment C under the column titled "Company's 2007 Costs." Staff is recommending that the total annual expenses for operations and maintenance to be included in rates should be \$37,376.

Staff's Adjustments to Annual Expenses

Staff made the following adjustments to the Company's 2007 annual expenses to obtain the recommended annual expenses for the revenue requirement. The effect of each adjustment is shown on Attachment C.

1. Power Costs: The Company claimed annual power costs for the operation of the well pumps as \$12,981. Staff audited all of the power bills and found that the actual cost for the power used during the year was \$13,495. This power was used to serve an average of 46 customers on the water system throughout 2007. There are now 52 customers served by the water system. Staff adjusted the power costs on a linear basis to reflect the 13% increase from 46 customers to 52 customers. Therefore, the test year power cost was increased by 13% from \$13,495 to \$15,249. Staff is also aware that the cost of electricity is expected to increase. Staff recognizes that the percentage of increase in electric rates is dependent upon the outcome of Idaho Power cases (Power Cost Adjustment, Danskin CT1, DSM Rider) currently before the Commission. The actual increases to power rates should be determined by the Commission by June 1, 2008. Staff recommends that the power costs be increased to reflect the actual percentage increase as determined by the Commission. For these comments Staff has incorporated Staff's position in the above cases to calculate an escalation factor of 14.5% for inclusion until the Orders are issued. Therefore, Staff has included \$17,461 of annual power costs in rates.

2. Certified Operator: The Company paid \$30,412 to Valley Hydro as the contracted certified water system operator. The total paid to the certified operator included amounts paid for the basic water system operation, water testing, extra labor charges, and meter reading. Meter reading, water testing, excess labor costs, and materials should not be included in the basic

contract amount. Staff removed these costs from the certified operator's annual costs and included them as separate line items in the total cost analysis. These costs will be discussed below. The contract for basic water system operation with Valley Hydro provides for the basic operating service at \$3,000/year, well maintenance at \$720/year, service connection maintenance at \$1,440/year, and backflow testing at \$1,080/year. This totals \$6,240. The basic cost of \$6,240 (\$520 per month) is a reasonable cost for the certified operator. The law requires that the Company have the services of a certified operator for the operation of the water system.

3. Labor Charges for Certified Operator: Last year the Company used the certified operator for extra services for a total of 36.5 hours. The Company was charged \$35/hour for this extra labor. Staff is satisfied that the amount of extra labor charges incurred by the Company is reasonable. Even though the system is new, and extra repairs should not be excessive, 36.5 hours of extra service on the system annually can easily occur. Additionally, Staff believes the hourly rate of \$35 is reasonable. The total cost of \$1,275 for the extra labor by the certified operator is reasonable and should be include in rates.

4. Meter Reading: The certified operator also received additional compensation for reading the meters. The operator spent 43.5 hours during 2007 for reading the meters monthly. The operator charged \$35/hour for this service. Staff believes this is a reasonable time and charge for meter reading on a monthly basis. The total cost for this service included in rates is \$1,525.

5. Accounting and Billing: The Company included in 2007 the cost of \$3,603 for Accounting and Billing. An affiliate of the Company is currently providing the accounting and billing services. This service includes the preparation of the monthly statements, the collection of the payments, depositing those payments into the Company's bank account, and providing monthly accountings to the Company. Since an affiliate is providing this service, Staff closely scrutinized the charges to ensure that the affiliate was not transferring any unrelated costs to the Company. Staff is satisfied that a monthly charge for accounting and billing of \$300 is reasonable. This is a very competitive price if compared to the same service provided by an unaffiliated party.

6. Water Testing: The Company included as part of the payments made to the certified operator the sum of \$8,075 for water testing. Staff determined the normalized annual costs of water testing (See Attachment D) for the Company's two wells, and the total annual cost is

\$3,450 for both wells. Therefore, Staff excluded \$4,625 from the Company's claimed \$8,075 for water testing.

7. Legal Fees: The Company recorded legal fees in the amount of \$16,278. Additionally, the Company recorded \$14,263 as Professional Fees. Upon examination, all the costs incurred and recorded in Professional Fees were also legal fees. Therefore the total legal fees paid by the Company in 2007 were \$30,541. The Company reduced its request for legal fees in its Application by \$20,541. Even with this reduction, the Company is requesting that it recover \$10,000 annually in rates. After reviewing the legal billing invoices, Staff does not believe recovery in rates is reasonable. It appears that most if not all of the recorded legal fees are related to the civil action between the developer and the homeowners. The Company should not be allowed to include any of the legal fees relating to the legal action between these two private parties. None of these costs are related to the operation of the water company, nor are they reoccurring expenses. It is reasonable to expect that the Company would incur between four and five hours of legal service on an annual basis. Based on billing rates paid by the Company, Staff has included a normalized amount of \$750 for annual legal fees.

8. Professional Fees: Since none of the professional fees incurred by the Company should be allowed (see Legal Fees above), Staff has included other professional fees that are reasonable and reoccurring. Staff includes a normalized amount of \$500 to cover the cost of an accountant to prepare the annual tax return and the Annual Report for the Commission.

9. Engineering Fees: The Company included \$3,480 for payment made to professional engineers. Staff found that all of these costs were related to the initial installation of the water system and obtaining the required permits from DEQ. Since these are non-reoccurring expenses, they are not appropriate for inclusion in a rate calculation. Staff has, however, included a normalized amount of \$250 to cover the cost for two hours of engineering expenses that may be incurred on an annual basis.

10. Well Inspection Fees: The Company included \$526 for well inspection fees. Staff determined that the wells need to be inspected semi-annually and that a reasonable cost for this inspection is \$170 per inspection. Therefore, Staff included \$340 in expenses for this service.

11. Telephone: The Company did not include any expense in its Application for telephone costs. Staff has included \$300 annually for a single telephone line that the Company should use as the contact method for its customers.

12. Maintenance and Repairs: The Company included \$1,080 for maintenance and repairs. Upon audit, these expenses were for cutting holes in the meter lids. This does not appear to be a reoccurring expense and should not, therefore, be used as the basis for determining a reasonable amount for annual maintenance and repairs. Staff determined that \$350 is a reasonable amount for maintenance and repairs to include in annual expenses.

13. Office Supplies: The Company included \$74.00 as its annual expense for office supplies. Staff included this in expenses at \$75.00.

14. Licenses and Permits: The Company did not include any costs in its annual expenses for licenses and permits. Staff is aware of annual licenses the Company will be obligated to pay to DEQ and to the Commission. Therefore, Staff has included \$300 in the annual expenses to pay for these annual costs.

15. Depreciation Expense: Staff has included the purchase of the meters and some flexible fittings that go with the meters in rate base. The Company should be able to depreciate these items and receive the annual depreciation in rates. Staff used a useful life of 15 years for these capital assets. The annual depreciation amount is \$960.

Rate Base

The Company purchased meters for the system in the amount of \$13,367 and flexible fittings for the meters in the amount of \$1,070 during 2007. The Company excluded the cost of the meters from its calculation of annual expenses but did not exclude the cost of the flexible fittings. It is Staff's belief that the cost of the fittings should also be capitalized with the cost of the meters, and that both costs should be added to rate base. The Company has agreed with Staff that the total cost of the water system (not including the meters and the fittings) should be considered as contributed capital by the developer, and not included in rate base. Therefore, the total rate base for the Company should be \$13,367 (meters) plus \$1,070 (fittings) less \$960 (one year's depreciation) or \$13,477. (See Attachment B).

Revenue Requirement

Staff's calculation of the proposed revenue requirement for the Company is shown on Attachment A. The Company's net rate base of \$13,477 will produce a return of \$1,617 at the recommended rate of return of 12%. (See Attachment B). This return must be grossed-up to account for federal and state taxes that would need to be paid on this revenue. The net to gross

multiplier is 127.3% (see Attachment A). When the gross-up factor is applied to the return of \$1,617, the Company must earn revenue of \$2,059. This amount added to the annual expenses of \$37,376, equates to a total revenue requirement of \$39,435. (See Attachment A).

The Company requested that it be allowed to collect as part of the revenue requirement the sum of \$13,080 as a sinking fund account for future repairs on the water system. Staff is opposed to the Company collecting any amount for a sinking fund. The Company does not specify how the amount was calculated or for what purpose the sinking fund would be used except for the general assertion that it would be used to pay for future repairs to the system. Since the system is new, future repairs are not likely for some time. If the current system has a specific need, then the Company can present that need to the Commission for consideration. The Commission should not approve the collection of a fee for a sinking fund whose purpose is only general, nonspecific and for future needs.

WATER SUPPLY AND RATES

Certificated Area

Mayfield Springs Water currently serves the Arrowrock Ranch Subdivisions No. 1 and No. 2. (See Attachment E). The subdivision is located in Ada County about two miles east of the town of Kuna. Attached is the legal description of the property included on the official plat map of Arrowrock Subdivisions No. 1 and No. 2. The entire plat includes an area of approximately 106.3 acres. The Arrowrock Ranch Subdivision consists of 100 lots ranging in size from 0.5 to 1.0 acre. In the event the Arrowrock Subdivision is fully built out the Company could have an estimated 100 residential customer connections (50 for Subdivision No. 1 and 50 for Subdivision No. 2). An additional 100 residential customer connections are expected if the larger proposed service territory is fully built out. Furthermore, the Company has plans to develop other surrounding areas in the future consisting of approximately 5,584 acres and requested that the Commission grant a Certificate of Public Convenience and Necessity for these areas, including Subdivisions No. 1 and No. 2.

Staff proposes that the Commission only issue a CPCN for the existing improved residential areas included in Arrowrock Subdivisions No. 1 and No. 2. When the other areas are fully developed in the future, Staff recommends that the Company apply for modification of the Certificate with a corresponding Staff review of the adequacy of the water supply system serving the new areas at that time.

System Description

The Company submitted drawings showing lot sizes, locations, wells, pumping plants and the water distribution system. Staff has reviewed the as-built drawing of the water system and physically inspected the water system on April 3, 2008. Staff found the system to be constructed in general agreement with the design. The public water system is designed to serve approximately 101 customers; 100 residential customers in Arrowrock Subdivisions No. 1 and No. 2 and the common area. When the Application was filed, the Company indicated that the water system was serving 38 residential customers, providing water to 17 lots for the construction of residential dwellings, and serving the common areas. However, when Staff reviewed the meter usage readings submitted by the Company, there was a total of 60 connections (customer meters) by the end of December 2007.

The public water system is supplied by two wells. Well No. 1 has two pumps; Pump No. 1 is a 25-hp pump unit with a design capacity of 250 gallons per minute (GPM) used for domestic water supply and another 125-hp pump for fire protection with a design capacity of 1,000 gpm. Well No. 2 has one 50-hp pump unit with a design capacity of 500 gpm used for domestic water supply. All three pumps are submersible types. Since the 1,000-gpm pump is dedicated to fire protection, the total peak pump capacity for the domestic water supply is 750 gpm including landscape irrigation. Assuming a peak household demand of 4.75 gpm, it appears that the system is more than adequate to serve the anticipated 100 households for Arrowrock Subdivisions No. 1 and No. 2. Staff notes that the developer plans for an additional 100 residential lots in the future in adjacent properties. Again, Staff recommends that a Certificate amendment as well as a determination of system adequacy be a condition to serve additional customers.

Well No. 1 is 12-inches in diameter and serves as the primary source of water supply. It utilizes a variable frequency drive (VFD) to maintain a constant operating pressure during variable demands. The VFD is set to maintain a 60-psi operating pressure. Well No. 2 is 18 inches in diameter and provides additional domestic water supply and fire protection. The two wells are approximately 40 feet apart and are constructed to a depth of approximately 400 feet. The facility is equipped with five 119-gallon hydro pneumatic tanks to supply water during low demand and to reduce pump cycling, but there is no other storage. The facility is also equipped with a propeller type electronic flow meter, which measures instantaneous flow rates and the total volume of water pumped.

The distribution system is supplied from the well facility through a 12-inch transmission main. An eight-inch looped system was designed to provide adequate hydraulic capacity of 1,000 gpm to all fire hydrants at a minimum pressure of 20 psi. Residential service lines are single one-inch polyethylene pipe with single meter boxes. Residential meters are installed to measure water consumption when new houses are built. The water supplied to each residential customer is used both for domestic and irrigation purposes. Seven two-inch irrigation service lines equipped with meters and backflow devices serve the common areas. Another one-inch service line with meter serves a waste water treatment facility.

The system is also equipped with pressure relief valves, isolation valves, check valves, electronic solenoid controlled flush valves and other appurtenances for better system management and safety of operation. A 30 kW generator was installed to provide standby power for the 30-HP Well No. 1 pump and controls. It is equipped with an automatic transfer switch to automatically start up the generator in the event of a power failure. The system is designed to have a chemical feed system for directly injecting sodium hypochlorite solution into the discharge piping through a quill type injector. However, this chlorination system is not yet installed.

The overall water system appears to be well designed and constructed and is expected to be more than adequate for the number of customers to be served. The installation of a 30 kW generator is a good insurance for electrical interruptions in the area. The variable speed drive increases the efficiency of electrical usage, avoids frequent repeated cycling of pumping units, reduces wear and extends life of the equipment. Individual water meters for all customers allow rates to be charged based on amount of water used.

Water Production and Consumption Data

Through production requests, Staff obtained information on monthly water usage for each customer during the 2007 test year. The data provided was incomplete so Staff extrapolated from the existing data to create a full year of record, which was used in designing water rates and charges. Monthly water consumption information was available for 46 residential customers and eight non-residential connections from June 1, 2007 to December 19, 2007, and for 52 residential customers for approximately three-month of lump-sum data for the period of December 19, 2007 to March 20, 2008, and additional data from March 20, 2008 to April 29, 2008. The test period water usage was annualized for 52 end-of-year customers and for the

missing month of the test year covering December to May. (May was calculated as the average of the April and June water usage.)

The Company provided monthly well water production data during the period from June 1, 2007 to December 17, 2007, a lump-sum three-month data from December 19, 2007 to March 20, 2008, and from March 20, 2008 to April 27, 2008.

Staff attempted to compare the monthly well water production and customer consumption data to verify the accuracy of the data and determine the amount of lost and unaccounted for water in the system. For all but one month, the well production amount is very close to the total customer consumption amount. This indicates very low losses which is what would be expected for a new system. (See Attachment F).

According to the Company, using its proposed rates, the average customer will pay \$101.45 per month and see an increase in the cost of water service of \$51.45 per month or 103 % over the \$50 flat rate currently being charged. The Company also proposes to eliminate the separate rate for builders with unsold homes.

Rate Design

In addition to the 52 residential customers in the subdivision, Staff notes that there are seven two-inch meters that supply irrigation water to a common area. In addition, there is another one-inch meter supplying water to the wastewater treatment facility making a total of eight meters for non-residential consumption.

The Company proposes rates for common area customers similar to the residential rates. Under the Company's proposal, the seven meters serving the common area would receive a single bill with one customer charge equivalent to a single residential customer. Water consumption for the non-residential customers is about 63% of the total annual consumption of the whole systems through these eight meters, and about 78% during the peak period of August.

Based on annualized usage for 52 residential customers and eight non-residential customers, Staff proposes the following rate design:

Residential

Minimum Monthly Base Charge:	\$20 (provides for the use of up to 10,000 gallons of water)
Variable Monthly Charge:	\$0.29 per 1,000 over 10,000 gallons consumed monthly

Non-Residential

Minimum Monthly Base Charge:	\$50 (provides for the use of up to 10,000 gallons of water)
Variable Monthly Charge:	\$0.29 per 1,000 over 10,000 gallons consumed monthly

Several rate design options were investigated by Staff using a low monthly base charge for residential customers for the first 10,000 of usage. Staff reviewed various water utility tariffs in Idaho, particularly those that appear to be comparable to Mayfield Springs Water and with lower monthly base charges. Brian Water, Falls Water, Spirit Lake and Sunbeam charge \$10.50 (1st 4,000 gal), \$11.53 (1st 12,000 gal), \$12.00 (1st 9,000 gal) and \$12.00 (1st 12,000 gal), respectively, for monthly base charges. An initial base charge of \$12.00 for the first 10,000 gallons was used but it was not enough to cover potential cash requirements during lean months. Therefore, the base charge for residential customers was set at \$20.00.

The monthly base charge for non-residential customers was set at \$50.00 per month for the first 10,000 gallons of usage. This amount is two and a half times the amount charged for residential customers. Staff believes that because of the large volume of usage by the non-residential account, especially during the peak month, the design of various components of the water facility was correspondingly adjusted to accommodate the requirements of the non-residential customers. As mentioned previously, water usage of the non-residential customers was approximately 63% of the total water used for the year and 78% of the total water used during the peak month.

A commodity charge for both the residential and non-residential customers was set at \$0.29 per 1,000 over 10,000 gallons of water consumed monthly to provide the remaining balance of the revenue requirement for the Company. The commodity charge would also encourage conservation of water use. With the above rates recommended by Staff, approximately 62% of the total revenue requirement for residential customers is contributed by the base charge and 38% is contributed by the variable charge. Similarly, 44% of the total revenue requirement is contributed by the base charge and 56% is contributed by the variable charge. Staff believes that this is reasonable because a large percentage of the volume of water during the year is used by the non-residential users (63%).

Staff notes that the Company proposed a variable rate on a dollar per gallon basis. It is customary in rate design to express it in dollars per 1,000 gallon basis. Staff recommends that

the Company also uses the \$ per 1,000-gallon unit for commodity charges. A comparison of the current rate, the Company's proposed rates and Staff's proposed rates are shown in Attachment H.

Staff recommends that this rate design be evaluated after one year to assess how usage patterns may have changed, what effect the new rates have had on customer bills and how effectively the rate design generates the revenue requirements authorized by the Commission. As noted by Staff, heavy use of water during the summer season also coincided with the establishment of new lawns for most customers, and the subdivision is actively being developed. Staff agrees with the concept of designing the rates with both a fixed and variable charge for metered consumption of water and Staff is not opposed to the Company's proposal to eliminate the special customer class for builders and unsold homes.

Operation of the System and Related Issues

Mayfield Springs Water has made arrangements with Valley Hydro, Inc., as the certified operator to provide routine operation and maintenance services for the public water system. Tom Mehiel, owner of Valley Hydro, has a Distribution Operator Class III License in the State of Idaho. As a certified operator for the system, he will periodically prepare technical and managerial reports in connection with the Mayfield water system. Contact between Mayfield and the certified operator is made regularly through face-to-face meetings, telephone, email and facsimile. Such contacts help ensure that issues such as equipment problems, performance shortfalls, and pending needs for repair and replacement are addressed in a timely manner.

As part of its review of the water system, Staff looked at both water quality and water right issues to assure that the Company can adequately provide service. The Company has had past occurrences of coliform bacteria in 2006 and 2007 that violated DEQ standards. According to DEQ, these issues were resolved and the Company is currently in compliance with Idaho drinking water quality standards.

The Company currently maintains a water permit sufficient to provide domestic use for 100 homes. This permit requires that the Company submit proof that the water is put to beneficial use to assure that the water right is properly licensed. Failure to record current ownership or properly license the right could complicate future water right validation. The Company's water right permit also contains limitations on the use of irrigation for individual lots and for irrigation of common areas. Given the size of some subdivision lots and the amount of

water applied to common areas, the Company should be aware of such limitations and work to maintain permit compliance.

HOOKUP FEES

The Company has requested a one-time charge for each customer to recover the cost associated with building the system, meter installation and connection in the amount of \$2,500.00. It appears that the hook-up fee was charged with the first lot sale. In fact, a copy of a previous Buyer's/Borrowers Escrow Closing Statement provided by the Company for Lot 45 Blk 1 Arrowranch 1 with a settlement date of August 17, 2006 indicated that a \$2,500 water hook-up fee was another charge included in the transaction. If the Company has already charged the lot buyer, there is no reason for the Company to charge another \$2,500.00. Otherwise, the customer will be charged twice for the same item. It also appears that the hook-up fee charge appears is excessive. The Company fails to provide detailed documentation on how this fee was derived. Based on the review made by Staff on the existing water distribution system from engineering specifications and standard drawings, individual meter boxes are already in place at each lot. The meter box encloses a one-inch polyethylene supply pipe from the mainline and exit pipes fitted to a water setter assembly for future fitting of a one-inch residential type water meter. Based on a quote from a vendor the average cost of a "touch-read" type meter is \$268 and the adapter to allow reading electronically costs \$215. Assuming approximately 3 hours to install the meter and electronic adapter at \$75, the total cost of installing the meter should be approximately \$708. Staff therefore recommends a hookup fee of \$725.00 for new homes.

CUSTOMER RELATIONS

The Company provided copies of the customer notice and the press release regarding the request for certification and a proposed interim rate schedule as part of its original filing on February 5, 2008. The customer notice meets the requirements of the Utility Customer Information Rules (UCIR), IDAPA 31.21.02.000 et seq. The Commission mailed Mayfield Springs' customers a copy of the Notice of Application and Notice of Intervention on March 3, 2008 as formal notification of the Company's request for certification. On April 25, 2008, the Company filed an amended Application along with a copy of a customer notice and a press release notifying the customers of its new proposal. The notice and press release fulfilled the requirements of the UCIR. The customer notice was sent to customers along with their monthly

billing on April 30 and 31, 2008, and the press release was sent to local television and print media on April 29, 2008.

The General Rules and Regulations for Small Water Utilities section of the Company's proposed tariff submitted with the original Application was based on an older version of the Commission's model Rules and Regulations for Small Water Utilities. An updated version of the Rules and Regulations will be provided to the Company by Staff for incorporation into its tariff.

A Rules Summary is to be given to new customers and sent to customers on an annual basis by the Company. The Rules Summary that was provided by the Company fulfills the requirements of the Utility Customer Relations Rules (UCRR), IDAPA 31.21.01.000 et seq.

The bills and past due notices submitted with the original Application meet the requirements of the UCRR. The Company had initially requested an interim flat rate for its customers. However in its amended Application filed April 29, 2008, the Company proposed a minimum monthly charge which includes 10,000 gallon of water and a variable charge of \$.000651 for each gallon used in excess of the initial 10,0000 gallon. Staff recommends that the Company be required to revise its bills and notices to include meter readings and usage data as required by the UCRR. Staff will assist the Company in drafting these documents to ensure compliance.

Non-recurring charges mentioned in its proposed rate schedules include an initial hook-up fee, which is charged to the builder/developer for the initial installation of the meter and the meter box, and a reconnection fee which is charged to restore service after a disconnection for non-payment. Neither the original interim rate schedule nor the revised rate schedule includes a non-recurring charge for late payment fees, although the Company's response to Staff Production Requests indicates that the Company has been assessing a late payment charge. A customer invoice, submitted as part of Exhibit No. 25, indicates a \$15.00 late payment charge assessed on the previous balance due. Other utilities, including several small water companies, have adopted a late payment charge as a means to encourage customers to pay on a timely basis. While the Company has not requested a late payment charge in its Application, Staff recommends the Commission authorize a late payment charge of one percent per month on any balance owing at the time of the next monthly billing as a means of encouraging prompt payment. The \$15.00 late payment that is assessed regardless of the amount owed is excessive and does not conform to charges approved by the Commission for other utilities.

The revised rate schedule submitted with the amended Application would charge all customers the same minimum monthly charge including residential sites, both developed and under construction, and the common areas in the subdivision. Residential sites are serviced through a meter and a one-inch pipe and all residential sites would pay the same minimum rate once the meter and meter box are installed, whether the site is bare land or under construction or is a finished residence with a landscaped yard. According to Company provided information the residential sites average three-fourths of an acre and a completed lot would use considerably more water than an empty lot or a lot under development. According to the original Application the common areas in the subdivision are serviced through three separate meters supplied by two-inch pipes. Other responses to Staff Production Requests indicate that the Company is utilizing seven meters to water the common areas. The proposed tariff is unclear as to whether the common areas would be charged a minimum charge for each meter or a single minimum charge for all meters. This discrepancy in size of service and possible amount of usage should be considered to ensure residential customers are paying an appropriate rate.

In addition to the eight informal complaints filed with the Commission by seven different customers since October 12, 2006, there has also been a request to file a formal complaint, all filed prior to the Company's Application for certification. The informal complaints address (1) the rates charged by the Company providing service to the subdivision (initially \$100 a month) and (2) the delay in filing an Application for certification with the Commission. Since notification was sent to the customers, the Commission has received six comments from customers including some of the previous complainants and all comments speak against the proposed rates. On May 19, 2008 the Commission held a public workshop for customers of Mayfield Springs with about twenty people in attendance out of thirty-eight residential customers. Since the public workshop, four additional comments have been received that also spoke against the proposed rates.

STAFF RECOMMENDATIONS

1. Staff recommends that the Commission issue a Certificate of Public Convenience and Necessity to Mayfield Springs Water for only the developed property in Arrowrock Subdivisions No. 1 and No. 2.
2. That the Commission find that the Company has rate base in the amount of \$13,477.

