

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF TROY HOFFMAN WATER) **CASE NO. TRH-W-10-01**
CORPORATION FOR AUTHORITY TO)
INCREASE ITS RATES AND CHARGES FOR)
WATER SERVICE IN THE STATE OF) **ORDER NO. 32152**
IDAHO)

On June 7, 2010, Troy Hoffman Water Corporation, Inc. (Troy Hoffman; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting authority to increase its rates and charges for water service. The Company's existing rates were established in August 1996. Troy Hoffman, pursuant to Commission-issued Certificate of Convenience and Necessity No. 280, provides water service to 146 residential customers and 1 commercial customer in the vicinity of the City of Coeur d'Alene, Kootenai County, Idaho.

In its Application, Troy Hoffman proposed an increase of \$34,262 over revenues generated by existing rates in 2009. The Company states that it is necessary to raise rates due to increased operating expenses along with capital costs incurred from performing needed repairs and replacement of the main pump in 2009. The Company also proposed changes to its reconnection tariff, changes to its method for collecting the state-assessed public drinking water fee, and proposed new charges for late payment and returned checks.

After reviewing and considering the Application of Troy Hoffman, the comments and recommendations of Commission Staff, the Company reply and the written comments and public testimony of customers, we approve an annual revenue requirement for Troy Hoffman of \$41,834, an increase of \$17,682. We approve changes to and implementation of non-recurring fees and charges (reconnection, late payment and returned check charges). We authorize the new rates to become effective January 1, 2011.

BACKGROUND

A. Procedural History

On June 23, 2010, the Commission issued a Notice of Application in Case No. TRH-W-10-01 and suspended the Company's proposed July 1, 2010, effective date. Order No. 32130.

On October 21, 2010, the Commission issued a Notice of Public Workshop, Modified Procedure and Scheduling.

Commission Staff held a public workshop for customers on November 9, 2010, in Coeur d'Alene. At the workshop, Staff provided customers with an overview of the Company's Application, dispensed information on how customers could participate and answered questions.

The Commission established a scheduling deadline for Staff comments and analysis (November 23), Company reply (December 3) and customer comments (December 9).

The Commission held a telephonic hearing on December 9, 2010, for receipt of public testimony.

B. The Application

In its Application, Troy Hoffman represented an annual revenue increase of \$34,262 (142%). Application, Exh. 4-B. The Company proposed to increase the fixed base rate for residential customers from \$5.50 to \$13.21 per month and for commercial customers from \$7.50 to \$18.15 per month. The Company also proposed to increase the volumetric or commodity rate from \$.60 to \$1.45 per 1,000 gallons for all consumption in excess of 3,000 gallons per month for both residential and commercial customers. Customers are billed for water service on a bi-monthly basis. Customer meters are read bi-monthly during summer and are read in April for winter water usage (October to March).

Additional charges (and changes) proposed by the Company are (1) changing the current \$10 fee for Turn On Terminated Service to a Reconnection Charge of \$20 during office hours (7-4 Monday through Friday) and \$40 after office hours; (2) imposing a Late Payment Fee of \$10; and (3) a Returned Check Fee of \$20. Also proposed is a change in the Department of Environmental Quality (DEQ) Public Drinking Water Fee from a one-time \$5.00 customer charge to a \$.42 per month assessment fee.

C. Staff Comments and Recommendations

On November 23, 2010, Commission Staff filed its investigative report, comments and recommendations in Case No. TRH-W-10-01. Based on its investigation and onsite audit, Staff recommends for Troy Hoffman an annual increase in revenue of \$16,239 or 67.24% over the Company's 2009 test year annual revenues of \$24,152.

D. Company Reply

The Company by way of reply filed on December 6, 2010, requests additional annual revenue for the following expense items:

Additional Expense Itemization/Request Amounts

\$1,000	Licensed Backup Operator (required by Idaho Department of Environmental Quality)
\$1,200	Bookkeeping
\$2,400	Space Rental fee
\$ 400	Landscaping
<u>\$ 500</u>	Transportation
\$5,500	Total

By Supplemental Reply filed on December 9, 2010, the Company states that with the exception of the foregoing, it otherwise accepts Staff's proposed adjustments and recommendations.

DISCUSSION

The Commission has reviewed and considered the complete record in Case No. TRH-W-10-01, including Staff comments and recommendations, the Company's reply comments and the written comments and testimony of customers.

A total of 25 written and 4 telephonic comments were received from Troy Hoffman customers. All customers submitting comments oppose the size of the rate increase (142%) requested by the Company in its Application. Customers cite poor economic conditions and fixed incomes as a reason for the Commission to scrutinize the Company's request. The Commission appreciates the time and effort taken by Troy Hoffman customers to comment on the Company's Application. We recognize that for some customers any increase may result in economic hardship. We approach the Company's Application conscious of the consequences of our decision. While we have an obligation to customers to establish rates that are fair and reasonable, this Commission at the same time has a statutory obligation to Troy Hoffman to set rates at a level sufficient to allow the Company to recover its reasonable expenses of operation and to receive a reasonable return on prudent capital investments in utility plant and facilities. Carrying out this duty is necessary for the Company to be financially sound and capable of providing its customers with safe and reliable water service.

The Commission finds that the established record provides a sufficient basis for decision in this case without further procedure or hearing. Staff's investigative report in this case informs the content and structure of our discussion below.

System Description

As reflected in Staff comments, the Troy Hoffman water system is supplied by a single well drilled in the early 1960s to a depth of approximately 250 feet. The well was cased

with 30-inch steel up to 203 feet and an additional 45 feet of 32-inch perforated steel at the bottom. No pump test data is available. There are two pumps installed in the well. Pump No. 1 was originally a 30-hp vertical turbine pump with a rated pumping capacity of 300 gallons per minute (gpm). When this vertical turbine pump burned out in the summer 2009, the Company replaced it with a submersible pump with similar performance characteristics and the same horsepower motor rating. Pump No. 2 is a 20-hp submersible pump with a rated pumping capacity of 190 gpm. Pump No. 1 serves as the primary pump. The total capacity of the pumping system is 490 gpm. A totalizing and instantaneous flow meter was also installed at the common discharge line of the two pumps in the well in 2009 when the Company replaced Pump No. 1. The operating pressure at the discharge line before the flow meter at the time of Staff's site visit was between 52 to 75 psi. There are no variable speed drives installed in the system to control lower flow demands. However, the Company installed a soft starter for the newly replaced Pump No. 1 in 2009 to reduce pressure surges or "water hammer effect" on the system. The water facility is also equipped with two hydro-pneumatic tanks, with 4,000- and 3,000-gallon capacity, to supply water during low demand and reduce frequent pump cycling.

The distribution system is supplied from the well facility through an eight-inch transmission main. The transmission main then loops and branches into six-inch or four-inch pipes. Most of the transmission and distribution lines are asbestos cement pipes. All residential customers are served with ¾-inch meters with the exception of three customers served with 1-inch meters. The lone commercial customer has a 1-inch service meter. The capacity of the water system appears adequate to serve the existing customers of Troy Hoffman. Staff Comments pp. 9-10. The service area is mostly developed and there is no potential for any significant growth.

Test Year and Revenue Requirement

Staff recommends that the 2009 test year recommended by Troy Hoffman be approved. Staff made no adjustment to test year revenue (\$24,152).

Rate Base/Rate of Return

As reported by Staff, Troy Hoffman has not capitalized any repairs to plant in service since the Company's last rate case in 1996. Major repairs to the well pump and motor, electrical service and the well house were made in May, June and July 2009. The total cost of the repair

was \$40,795, with \$32,915 allocated to the pump and motor and \$7,880 allocated to the improvement to the well house. Staff Comments, Atch. 1.

Independent contractors provided work and materials for the pump and motor in the amount of \$24,450. The balance of the expenditure (\$8,465) was provided by All Service Electric, a company owned by Ron Stadley. Staff determined the total cost to be reasonably priced and fair and reasonable and recommends that the full \$32,915 be added to rate base.

The improvement to the well house was performed by Northstar Builders, a construction company owned and operated by Ken Murren, a partner with Ron Stadley in Troy Hoffman. The total cost was \$7,880. Staff reviewed all supporting documentation to ensure the services were competitively priced and concluded that the charges were fair and reasonable. Staff recommends that the full \$7,880 be added to rate base.

Staff and the Company agree that the original cost of all plant in service is \$60,927. Staff revised the Company's depreciation calculations to reflect the straight-line depreciation method approved by the Commission for determining accumulated and annual depreciation expense. Staff Comments, Attachment 1, reflects the accumulated depreciation of \$9,841 and depreciation expense of \$2,068 to determine rates. The Company's rate base is determined by adding net plant in service of \$51,086 (\$60,927 - \$9,841) to the Company's working capital requirement of \$3,986 (1/8 of the Company's annual operating expenses (\$31,861)). This is a standard working capital ratio. The resultant rate base that Staff recommends be approved is \$55,072. Staff Comments, Atch. 2. The Company agrees with Staff's calculations.

Staff recommends that a 12% return on equity and an overall rate of return on rate base of 8.8% (the weighted cost of total common equity (3.4%) and the Company's long-term debt (5.4%)) be approved. Staff Comments, Atch. 5. The Company agrees with Staff's calculations and recommendations.

Operating Expenses

Staff determined the working capital requirement for the Company to be 1/8 of the annual operating expenses. The annual operating expenses calculated by Staff are \$31,891. Staff Comments, Atch. 3 and as discussed later in these findings. This is \$8,433 less than the total operating expenses requested by the Company. One-eighth of \$31,891 is \$3,986. Staff Comments, Atch. 3.

Staff recommends that an annual revenue requirement of \$40,391 be approved. This equates to a \$16,239 (or 67.24%) annual increase in revenue. Staff Comments, Atch. 6. The difference between the Company's request and Staff's recommendation is largely attributed to Staff's recommendation for lower depreciation expenses and a lower level of contract services.

The audited revenues and expenses incurred by the Company during 2009 were used as the test year basis by Staff for determining the operating net income needed by Troy Hoffman for continued provision of water service to customers. The Company stated its annual revenue for the 2009 test year to be \$24,152. Staff reviewed the Company's financial information and supporting record and documentation. Staff made no adjustments to the test year revenues. The Company accepted Staff's operating expense adjustments with the following proposed additional expense items:

1. \$1,000 – Licensed Backup Operator (required by DEQ)

The Commission finds that a licensed backup operator is a requirement of the Idaho Department of Environmental Quality. Ken Murren is the Company's licensed backup operator. We find the \$1,000 in additional annual expense requested by the Company to provide this required service to be fair and reasonable. We find it reasonable to approve this expense.

2. \$1,200 – Bookkeeping

In its comments Staff recommended an allowance of \$3,600 for bookkeeping and states that \$300 is the monthly amount paid to All Service Electric, Mr. Stadley's Company, for office, bookkeeper, billing and recordkeeping services. Staff believes this amount is consistent with what an independent service provider would have charged and was in fact the amount paid by the Company to an independent service provider in 2004 and 2005 for bookkeeping services. Troy Hoffman requests an additional \$1,200 per year, contending that the cost of bookkeeping has increased since 2004.

The Commission finds that contract service amounts paid to an affiliated company are subject to a higher degree of scrutiny. We cannot discount Staff's representation that \$300 per month is a fair market price. Nonetheless, we accept the Company's representation that some increase is warranted. We find it reasonable to authorize an additional \$420 per year for bookkeeping. We expect the Company to pay this amount and to reflect the payments in its books as an auditable expense.

3. \$2,400 – Space Rental

All of Troy Hoffman's company operations, it states, are now run out of the All Service Electric offices. The Company requests that \$200 per month be added for office space rental. This is a new expense for use of their offices in addition to their providing ongoing bookkeeping services.

4. \$400 – Landscaping

Troy Hoffman requests an annual amount of \$400 be included for lawn maintenance for the pump house – \$20 per week for 20 weeks (five months May through September).

5. \$500 – Transportation

The Company contends that until this rate case application, it was unaware that it could be reimbursed for mileage for using personal vehicles for company business, e.g. driving within the system/customer locations, water testing, banking and mailing. The Company does not own any vehicles. The proposed allowance, the Company states, equates to approximately 83 miles per month at \$0.50 per mile which is the 2010 Internal Revenue Service (IRS) standard rate.

Staff comments reflect, and the Commission finds, that the above expense items 3,4, and 5 requested by the Company were previously provided as part of monthly service and operator fees the Company paid.

The Company in reply seeks to break these three services out as separate items. We find that the Company needs to develop auditable accounting records going forward, demonstrating that the amounts are separate expenses and actually paid. The monthly service and operator fee should be evaluated at the same time. Those expenses, should the Company seek to recover them in a future rate case, will then be subject to an assessment of reasonableness and prudence for inclusion in the Company's authorized revenue requirement.

The Company in this case claimed annual operating expenses in the amount of \$40,234 (Company Exhibit 2, Schedule B). Based upon the Company's financial records and its operations, Staff determined that the annual operating expense should be \$31,891. Staff Comments, Atch. 3. The Company in reply accepts Staff's adjustments, and recommends inclusion of additional amounts considered above.

We have reviewed the Company and Staff operating expense schedules and related filings and explanations and find it reasonable to accept the Staff adjusted amount of \$31,891 as

a fair calculation of the Company's base annual operating expenses, to which amount we add \$1,420 for a total annual operating expense amount of \$33,311.

Additional expenses are added to the adjusted total annual operating expenses amount of \$33,311. Those expenses are as follows:

Depreciation Expense	\$2,068
Regulatory Fees (PUC)	\$ 50
Property Taxes	\$ 180
Other Taxes (DEQ fees)	\$ 735
State Income Taxes	\$ 20

Total annual expenses for the Company are \$36,364.

The Company's annual net loss of (\$12,212) is determined by subtracting its total annual expenses of \$36,364 from its total annual revenue of \$24,152. The Company's total annual revenue requirement of \$41,834 is calculated in Attachment A to this Order. This annual revenue requirement allows the Company to recover its annual revenues of \$24,152, its annual net loss of \$12,212, its interest obligation of \$2,800, its grossed up allowed return on its rate base of \$2,641 (\$2,062 + \$579), and its incremental PUC fees of \$28 .

The Commission therefore finds that the Company should be allowed to collect annual revenues in the amount of \$41,834 from its customers.

Rate Design

In its Application, Troy Hoffman proposed to increase the fixed base rate for residential customers from \$5.50 to \$13.21 per month and for commercial customers from \$7.50 to \$18.15 per month. The Company also proposed to increase the volumetric or commodity rate from \$.60 to \$1.45 per 1,000 gallons for all consumption in excess of 3,000 gallons per month for both residential and commercial customers. Customers are billed for water service on a bi-monthly basis.

In this case, Staff recommends that the volume allowance for minimum customer charge be increased from 3,000 gallons to 5,000 gallons for both the residential and commercial customers. Staff Comments, Atch. 7.

Staff further recommends a minimum customer charge of \$11.52 for residential and \$15.50 for commercial and a single rate commodity charge for residential and commercial

customers of \$1.05 per 1,000 gallons for all consumption in excess of 5,000 gallons per month. Staff Comments, Atch. 9.

The Commission finds that the Company accepts Staff's rate design recommendations. We find the proposed rate design to be fair and reasonable. We adjust the rates to recover the Commission-approved revenue requirement of \$41,834. See Order Attachment B. Under the rates we approve, the monthly minimum customer charge for residential customers is \$11.80 and for commercial customers is \$15.50. The volume allowance remains at 5,000 gallons. The commodity charge for all customers (\$/1,000 gallons) is \$1.10 per 1,000 gallons for all consumption in excess of 5,000 gallons per month.

Other Operational and Maintenance Issues

- Staff recommends that the Company make an accurate assessment of water pumped and water sold. To accomplish this task, Staff recommends that the Company be directed to: a) investigate the placement and test accuracy of the newly installed production flow meter, and b) randomly test the accuracy of at least 10% of the customer service meters. Staff further recommends that the Company be directed to complete these tasks within one year of the final order in this case.

- Staff recommends that the Company review and update all notices, bills and other documents to be consistent with Commission's Rules and Regulations, including the Company Tariff with all Schedules, General Rules and Regulations and Main Line Extension Rules, monthly billing statements, initial notice of termination, final notice of termination, and annual rules summary.

- Staff recommends that the Company be directed to send out an annual rules summary (UCRR Rule 701).

- Staff recommends that the Company change its normal business hours (currently 7:00 a.m. to 4:00 p.m.) to between 8:00 a.m. to 5:00 p.m., Monday through Friday, excluding legal holidays.

We find that the Company accepts Staff's recommendations. We find the recommendations reasonable and direct the Company to comply.

Non-Recurring Charges

Staff and the Company jointly recommend that the Company be authorized to establish the following non-recurring charges to allow it to recover costs:

- Reconnection Charge

The Commission finds that it is fair and reasonable for the Company to charge a reconnection charge of \$20.00 for a reconnection requested during normal business hours and a reconnection charge of \$40.00 for a reconnection requested at any other time.

- Late Payment Charge

The Commission finds that it is fair and reasonable to allow the Company to assess a late payment charge of one percent (1%) per month of the unpaid balance at the time of the billing statement. It is our understanding that the Company reads meters only four (4) times a year and sends billing statements on a bi-monthly basis. We further find it reasonable to require the Company to send out reminder notices on past due balances between billing cycles and that it warn customers of the possibility of disconnection due to non-payment.

- Returned Check Charge

The Commission finds it fair and reasonable to authorize Troy Hoffman to assess a \$20 returned check charge.

- DEQ Public Drinking Water Fee

Troy Hoffman proposed a change in the Department of Environmental Quality (DEQ) Public Drinking Water fee from a one-time \$5.00 per customer charge to a \$.42 per month assessment fee. Staff recommends and we find it reasonable that the DEQ fee be recovered in base rates and not as a separate line item charge.

We find regarding the above detailed non-recurring charges and practices that the Company and Staff are in agreement. We find the proposed charges and practices to be reasonable and find it reasonable to approve and require same.

ULTIMATE FINDINGS OF FACT AND CONCLUSIONS OF LAW

Troy Hoffman Water Corporation, Inc. is a water utility subject to Commission jurisdiction pursuant to *Idaho Code* §§ 61-125 and 61-129. Troy Hoffman is an Idaho corporation and the holder of Certificate of Public Convenience and Necessity No. 280. The Commission has jurisdiction over the issues raised in this case pursuant to *Idaho Code* §§ 61-502 and 61-622 and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

Having fully reviewed and considered the record in this proceeding, we find that Troy Hoffman's existing rates do not afford sufficient revenue to the Company and are no longer

reasonable. We authorize an annual total revenue requirement for Troy Hoffman of \$41,834, an increase of \$17,682. We conclude that the rates and charges authorized in this Order are fair, just and reasonable.

ORDER

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED and Troy Hoffman Water Corporation, Inc. is hereby authorized to charge customers the rates and charges set forth above and in Attachment B. The Company is directed to file conforming tariff schedules setting forth the Commission-approved rates and charges.

IT IS FURTHER ORDERED and the Commission approves as more particularly described above the following non-recurring fees and charges:

1. Reconnection Charge:
 - a. A \$20 reconnection fee for reconnections requested during normal business hours (between 8:00 a.m. to 5:00 p.m., Monday through Friday, excluding holidays).
 - b. A \$40 reconnection fee for reconnections requested at any other time.
2. Overdue Accounts:

A late payment charge of one percent (1%) per month of the unpaid balance at the time of the billing statement.
3. Returned Checks:

A \$20 returned check charge.

The Company is directed to file tariffs setting forth the Commission-approved fees and charges.

IT IS FURTHER ORDERED and the Company is directed to take steps that will enable it to make an accurate assessment of water pumped and water sold and is to complete this task by year-end 2011.

IT IS FURTHER ORDERED and the Company is directed to change its normal business hours to 8:00 a.m. to 5:00 p.m. (Pacific), Monday through Friday, excluding legal holidays.

IT IS FURTHER ORDERED and the Company is directed to work with Staff to update its tariffs and rules and to bring itself into compliance with the Commission Rules and Regulations for Small Water Utilities and Utility Customer Relations Rules, IDAPA 31.21.01.000 *et seq.*

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.

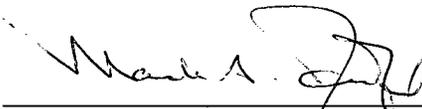
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 29th day of December 2010.



JIM D. KEMPTON, PRESIDENT



MARSHA H. SMITH, COMMISSIONER



MACK A. REDFORD, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

b1s/O:TRH-W-10-01_sw4

Troy Hoffman Water Corporation

TRH-W-10-01

Calculation of Revenue Requirement

	Commission Findings
1 Rate Base	\$ 55,250
2 Rate of Return	8.80%
3 Revenue Requirement from Rate Base	\$ 4,862
Portion of Return for Debt	\$ 2,800
Portion of Return for Equity (Balance)	\$ 2,062
4 Net Operating Income Realized	\$ (12,212)
Revenue Requirement Increase to	
6 Addition Gross Revenues	\$ 17,074
7 Incremental PUC Fees	\$ 28
8 Gross Revenue Requirement to Overcome Loss	\$ 17,102
9 Subject to Income Tax (Equity Return Only)	\$ 2,062
10 Tax Gross-up Factor	28.09%
Required Revenue Tax Increase	\$ 579
12 Revenue Increase Required	\$ 17,682
13 Amortize Rate Case Expenses	\$ -
14 Total Revenue Increase Required	\$ 17,682
15 Total Revenue Collected in Test Year	\$ 24,152
16 Total Annual Revenue Requirement	\$ 41,834
17 Revenue Increase %	73.21%

**Troy Hoffman Water Case No. TRH-W-10-01
Rate Proof of Commission-Approved Rate Design**

Commission-Approved Revenue Requirement \$41,834
 Total Number of Customers: Residential 146
 Commercial 1

MINIMUM CUSTOMER CHARGES

Type of Customers	Number of Customers	Volume Allowance (Gallons)	Minimum Customer Charge	Total Annual Rev. from Min. Charge
Residential	146	5,000	\$ 11.80	\$ 20,674
Commercial	1	5,000	\$ 15.50	\$ 186
Total	147			\$ 20,860

COMMODITY CHARGES (Residential and Commercial Customers)

Commodity charges for all customers (\$/1,000 gallons)	\$ 1.10
Net Volume of Excess Usage (gallons)	19,080,000
Total Commodity Revenue	\$ 20,988

Total Revenue (minimum customer and commodity charges) \$ 41,848

Revenue over (under) Revenue Requirement \$14

Various Charges as a % of Gross Revenue

Minimum Customer Charge 50%
 Commodity Charge 50%