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Attorney for the Commission Staff

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

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

**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Public Workshop, Notice of Modified Procedure, Notice of Scheduling and Notice of Telephonic Customer Hearing issued on October 21, 2010, submits the following comments.

**BACKGROUND**

On June 7, 2010, Troy Hoffman Water Corporation (Troy Hoffman; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting authority to increase its rates and charges for water service. Troy Hoffman provides water service to 146 residential customers and 1 commercial customer in the City of Coeur d'Alene, Kootenai County, Idaho.

Troy Hoffman proposes a revenue increase of \$34,262 (142%) for residential and commercial water customers. The Company has not had a rate increase for 14 years. Reference

Case No. TRH-W-95-01, Order Nos. 26545 and 28264. The Company states it is necessary to raise the rates due to increased operating expenses along with costs incurred from needed repairs and replacement of the main pump in 2009.

Troy Hoffman proposes the following increase in rates and charges:

	<b>Current Rates</b>	<b>Proposed Rates</b>
Residential	\$5.50 per month plus \$.60 per 1,000 gallons for all consumption in excess of 3,000 gallons per month	\$13.31 per month plus \$1.45 per 1,000 gallons for all consumption in excess of 3,000 gallons per month
Commercial	\$7.50 per month plus \$.60 per 1,000 gallons for all consumption in excess of 3,000 gallons per month	\$18.15 per month plus \$1.45 per 1,000 gallons for all consumption in excess of 3,000 gallons per month

Customers are billed for water service on a bi-monthly basis. Customer meters are read bimonthly during summer and are read in April for winter water usage (October to March).

Additional charges (and changes) proposed by the Company include: (1) changing the current \$10 fee for Turn On Terminated Service to a Reconnection Charge of \$20 during office hours (7-4 Monday thru Friday) and \$40 after office hours; (2) imposing a Late Payment Fee of \$10 for bills that are past due after 20 days of billing date; and (3) charging a Returned Check Fee of \$20. The Company also proposes 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 per customer.

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. On November 9, 2010, following its investigation of the Company's Application, Staff conducted a public workshop in Coeur d'Alene to discuss the Company's request for increased rates and charges.

**STAFF ANALYSIS**  
**Revenue Requirement**

The Company requested an annual revenue increase of \$34,261, or a 142% increase over the 2009 annual revenues of \$24,152. As part of its Application, the Company provided financial information for a 2009 test year. Staff reviewed the Company's financial information

and the supporting financial records and documentation during an onsite audit at the Company's offices. Based on its investigation and audit, Staff accepts the 2009 test year and is recommending an annual increase in revenue of \$16,239 or 67.24%.

The revenue increase is the result of additional rate base added to the Company's plant in service in 2009, and the increase in operating expenses needed to operate the Company and provide water service to customers. The difference between the Company's request and Staff's recommendation is largely attributed to Staff's recommendation for lower depreciation expense and a lower level of Contract Services.

### **Rate Base**

The last rate increase approved by the Commission for Troy Hoffman was by Order No. 26545 issued August 1, 1996 in Case No. TRH-W-95-01. The Company had not capitalized any repairs to the plant in service since the last rate case until it had major repairs to the well pump and motor, electrical service, and the well house. Those repairs were made in May, June and July of 2009. The total cost of the repairs was \$40,795, with \$32,915 allocated to the pump and motor and \$7,880 allocated to the improvement to the well house. The detail on all the Company's plant in service is shown in Staff Comments Attachment 1.

Staff reviewed all the invoices representing all the materials and labor for the pump and motor repair. The total cost for this expenditure was \$32,915. Independent contractors provided work and materials for the pump and motor in the amount of \$24,450. The services and materials provided by these contractors were found by Staff to be reasonably priced and should be accepted into rate base.

The balance of the total expenditure in the amount of \$8,465 was provided by All Service Electric, a company owned by Ron Stadley. Mr. Stadley is one of the two current owners of the Company and its President. Staff reviewed the invoice and underlying documentation from All Service Electric to insure that the affiliated services were reasonably priced. The service provided by All Service Electric included furnishing and installing new 200 amp 3-phase service meter upgrades, NEC required disconnects, soft start controls, electronic overloads, compressor/control wiring, and permits. Based in its review, Staff determined that the cost charged to the Company was fair and reasonable. Therefore, Staff included the total cost charged by All Service Electric of \$8,465 as an increase in rate base.

The improvements to the well house were performed by Northstar Builders, a construction company owned and operated by Ken Murren, a partner with Ron Stadley in the ownership of the Company. The total cost of the charges for the materials and work provided by Northstar Builders was \$7,880. Because these services were also provided by an affiliated company, Staff reviewed all supporting cost documentation to insure the services were competitively priced. After reviewing the documentation, and visually inspecting the improvements to the well house, Staff concluded that the charges were fair and reasonable, and included the total cost charged by Northstar Builders of \$7,880 as an increase in rate base.

Staff and the Company agree that the original cost of all plant in service is \$60,927. It appears the Company used the tax useful lives and annual depreciation expense from the taxes to determine the amount of accumulated depreciation and annual depreciation expense for this rate case. Staff revised the depreciation to reflect the straight line method of depreciation rather than tax depreciation to determine the accumulated depreciation and annual depreciation expense. Straight line depreciation is the method approved by the Commission for determining these amounts. Staff Comments Attachment 1 reflects the appropriate amount of accumulated depreciation of \$9,841 and depreciation expense of \$2,068 used to determine rates.

Staff Comments Attachment 2 shows how the net plant in service of \$51,086 is calculated using the accumulated depreciation amount of \$9,841 (\$60,927 - \$9,841). The Company's working capital is added to the net plant in service to determine the rate base. Staff determined the working capital requirement for the Company to be 1/8 of the annual operating expenses. This is a standard working capital ratio. For purposes of determining working capital in rate base, Staff used an annual operating expenses of \$31,891. One-eighth (1/8) of \$31,891 is \$3,986. This amount is added to the net plant in service to calculate the Company's rate base of \$55,072. Staff will discuss its calculation of the annual operating expenses below.

### **Annual Revenue**

The Company stated its annual revenue in the amount of \$24,152 for the 2009 test year. Staff reviewed the Company's billing system and bank deposits to determine if all the earned revenue is included in this amount. The Company's billing system appears to account for all the revenues generated by the delivery of water to the customers. An audit of the Company's bank statements showed that all of the revenue received by the Company from its customers was deposited into the Company's bank account. The total deposits for the test year equaled

\$24,152; therefore Staff did not make any adjustments to the test year revenues. The Company has very little delinquent payments, and no bad debt.

### **Annual Operating Expenses**

The Company claimed annual operating expenses in the amount of \$40,324 (Company Exhibit 2, Schedule B). Staff audited the Company's financial records for the 2009 test year to determine if this is a reasonable level of annual operating expense. The Company changed ownership from Bentwood Park LLC to Dalton Square LLC on April 1, 2009. This transfer of ownership was approved by the Commission on January 29, 2010 by Order No. 30992 in Case No. TRH-W-09-01. Since the test year included expenses incurred by the Company under previous ownership and also under the current owner, Staff's audit identified those expenses that may differ under the new ownership and then established expected annual expenses for the test year.

Based upon the Company's financial records and its operation, Staff determined that the annual operating expense should be \$31,891. See Staff Comments Attachment 3. Staff is recommending adjustments to the Company's reported operating expenses. Staff's explanation of each of the operating expenses adjustments is discussed individually below.

Labor – Operations & Maintenance: The Company has retained Ron Stadley (All Service Electric) as the water master and system operator since 1995. Mr. Stadley has been paid the sum of \$825 per month for his service for the past three years. Because this amount was previously paid by the Company under third party ownership, Staff recommends that this amount continue to be paid to Mr. Stadley even though he is the current owner. He will continue to provide the same service in the capacity of water master and system operator. Staff has checked with other third party water operators in the Coeur d'Alene, Idaho area, and this amount does not exceed what an independent water operator would charge for a water system of this size. Therefore, Staff recommends that this amount continue at the rate of \$825 per month, or \$9,900 annually.

Salaries – Officers & Directors: The Company requested the annual amount of \$8,000 to manage the Company. Staff reviewed the amounts paid to the owner for management services in previous years and found they had received \$6,000 in 2009. Staff

recommends that this amount remain the same. This allocates the sum of \$500 per month, which Staff believes is a reasonable amount of compensation for this function.

Purchased Power: The Company purchases its power from Avista Utilities. This expense is variable and dependent upon the amount of water customers' demand from the system. The 2009 test year did not appear to be an unusual year for water demand. While the Company requested the amount of \$6,400, the total expended in 2009 for power was \$6,155, and the rates have increased since 2009. Staff evaluated power cost increases that have been approved since the test year and determined that the amount requested by the Company represents a reasonable estimation of current power costs. Therefore, Staff has included the amount of \$6,400 as the power expense in determining annual operating expenses.

Materials & Supplies – Operations: The Company requested \$3,600 for annual materials and supplies. However, Staff was only able to find expenditures in the amount of \$600 in this category of expense that would be ongoing and annually reoccurring. There was a purchase from Consolidated Supply in the amount of \$522 and a purchase from TAK Technology, Inc. for \$79. Both of these expenses were for materials used in the repair of the water system. Staff could not find any other expenditures for materials or supplies that should have been in this account. Therefore, Staff reduced the request amount by \$3,000.

Materials & Supplies – General and Administrative: These expenses include the cost to operate the Company's office and send out the bills. The Company requested \$689 for these annual expenses. This amount agrees with the amount the Company expended in the test year, and Staff agrees that this amount should be included in the revenue requirement.

Contract Services – Office & Accounting: The employees of All Service Electric, Mr. Stadley's company, provides all the office, bookkeeping services, billing, and record keeping for the Company. Since the change of ownership, the Company has been paying the monthly sum of \$300 for these services. Staff believes this amount is consistent with what would have been charged to the Company by an independent service provider. Staff reviewed the Company's history of payment for these services and found that it had paid \$300 per month to an independent service provider in 2004 and 2005. The Company did not

include any amount for this expense; however, the Company has been making this payment since July 2009. Therefore, Staff increased annual operating expenses by \$3,600.

The Company additionally has meter reading expense that also was not included. Staff has included \$400 for the annual cost for meter reading expense. Because the Company only reads meters four times a year, this represents a cost of \$100 per meter reading.

Contract Services – Professional: The Company requested \$7,650 as the annual amount for Professional Services. This would include legal, accounting, engineering, or business planning services. Although the Company had expenses that total \$7,650 in the test year, the Company reported that the \$6,250 was for services that related to the purchase of the Company and the filing for the change of ownership with the IPUC. Those expenses are not of a reoccurring nature and Staff has therefore removed \$6,250. Staff did accept \$1,400 as a reoccurring cost for accounting services to prepare the Company's taxes and the IPUC Annual Report.

Contract Services – Water Testing: The Company is required to test the purity of the water according to a 9-year testing cycle required by DEQ. Because some tests are not required every year, but are required in the 9-year cycle, the cost for testing must be normalized to reflect on an annual basis what the total cost of the testing would be over 9 years. The annual water testing cost is calculated to be \$475.

Rentals – Property & Equipment: The Company requested \$2,400 for rental expenses for equipment. Staff reviewed the specific expenditures during the test year and it appears that this is a reasonable reoccurring expenditure and no Staff adjustment is proposed.

Transportation Expense: The Company requested \$500 for transportation expense. Staff was unable to find any ongoing reoccurring expense that would justify this amount being included in rates and therefore excluded the entire amount.

Insurance: The Company claimed insurance expense of \$35. Staff reviewed the premium page of the insurance policy and could only find insurance premiums for the Company in the amount of \$27. Therefore, Staff removed \$8 from the Company's request.

Miscellaneous Expenses: The Company requested \$400 to pay for miscellaneous expenses. Staff could not find any expenditures by the Company that would justify this request. Therefore Staff removed \$400 from the Company's request.

Staff's recommended annual operating expenses is \$31,891. This is \$8,433 less than the total requested by the Company.

### **Income Statement**

Staff has prepared Staff Comments Attachment 4 as the annual income statement for the Company that includes the Company's request and Staff's recommended adjustments. This statement includes additional Company expenses that are not included in the operating expenses total. These additional expenses are depreciation expense, Idaho Public Utilities fee, property taxes, DEQ fee, and state and federal income taxes. Staff found no reason to adjust any of the expenses reported by the Company except for depreciation expense. Staff discussed this difference in the Rate Base section of these comments. Based upon the financial information discussed above, Staff determined that the Company has an annual net loss of \$10,792.

### **Rate of Return on Rate Base**

The Company is entitled to earn a reasonable return on its rate base. If a utility has no debt, then the rate of return is determined on the basis that all the utility's capital is attributable to its equity. The Commission in several recent small water cases has allowed a 12% rate of return on the utility's equity. Bar Circle S Water Company in Case No. BCS-W-09-02, Order No. 30970; Stoneridge Water Company in Case No. SWS-W-06-01, Order No. 30342; Falls Water Company in Case No. FLS-W-05-01, Order No. 30027; Capitol Water Company in Case No. CAP-W-06-01, Order No. 30198; Spirit Lake East in Case No. SPL-W-06-01, Order No. 30279.

However, if the utility has debt, then the interest rate on the debt factors into the overall allowed rate of return. The Company had to borrow money to complete the necessary improvements to the pump, motor and well house. It incurred a loan from Ken Murren and the loan has a current balance of \$37,345. This loan accrues interest at the rate of 7.50% and results in the annual interest expense of \$2,800.



Because the Company has debt, the overall allowed rate of return on the rate base must be weighted to reflect the authorized return on equity and the interest rate paid on debt. Staff Comments Attachment 5 shows the recommended overall rate of return of 8.8%. This recommended return is the sum of the equity return (3.4%) and the Company's debt (5.4%).

Staff calculated the revenues associated with the return on its rate base in the amount of \$4,846 ( $\$55,072 \times 8.8\%$ ). Of this revenue, \$2,800 reflects interest on the debt that is a deduction for tax purposes. The remaining \$2,046 is subject to taxes on both a federal and state level. The process of increasing the revenue requirement for tax effects is called "grossing-up." Staff has prepared the tax grossing-up factor on page 2 of Staff Comments Attachment 6. The net to gross multiplier calculation of 28.09% is the percentage that must be applied to the \$2,046 to determine taxes of \$575 that must be collected in rates to allow the Company an opportunity to earn the overall 8.8% rate of return.

### **Calculation of Revenue Requirement**

Staff has calculated the additional revenue the Company should be entitled to collect in rates in Staff Comments Attachment 6. The total revenue requirement is the combination of the net loss of \$10,792, the return on rate base of \$4,956, the additional fee owed to the IPUC for the additional revenue collected in the amount of \$26, and the tax gross up amount of \$575 for a total of \$16,239. When this amount is added to the current revenues of \$24,152 the total revenue requirement that should be collected in customer rates is \$40,391. This represents a 67.24% increase to the current rates.

## **ENGINEERING AND RATE DESIGN**

### **System Condition**

As part of the evaluation process, Staff conducted a field tour of the water system on September 1, 2010, accompanied by Ron Stadley, owner of Troy Hoffman Water Corporation. The tour involved inspecting the various components of the water supply and distribution system focusing on project components that were recently completed including the newly refurbished main pump and the production flow meter at the well.

The Troy Hoffman Water system is currently supplied by a single well drilled in the early 1960's to a depth of approximately 250 feet. The well was cased with 30-inch steel up to 203

feet and 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 gpm. However, when this vertical turbine pump burned out in the summer of 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 in 2009. During the visit, the operating pressure at the discharge line before the flow meter 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.

There are some fire hydrants installed in the system but they are no longer used by the Fire District. The Company is using them for flushing the lines. There are also flush hydrants installed at the end of the distribution lines to flush the lines.

The distribution system is supplied from the well facility through an 8-inch transmission main. It then loops and branches into a 6-inch or 4-inch pipes. Most of the transmission and distribution lines are asbestos cement pipes. There are a total of 147 customers served by the water system; 146 residential and one commercial. Almost 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.

During the public workshop conducted by Staff, no comments were received from Troy Hoffman customers concerning issues of adequacy and reliability of water service. Nor were such issues identified by customers who provided written comments.

## Rate Design

The Company is proposing to increase its water rates as follows:

- **Residential Customers** – increase residential rates from \$5.50 per month plus \$0.60 per 1,000 gallons for all consumption in excess of 3,000 gallons per month to \$ 13.31 per month plus \$1.45 per 1,000 gallons for all consumption in excess of 3,000 gallons per month.
- **Commercial Customers** – increase commercial rates from \$7.50 per month plus \$0.60 per 1,000 gallons for all consumption in excess of 3,000 gallons per month to \$ 18.15 per month plus \$1.45 per 1,000 gallons for all consumption in excess of 3,000 gallons per month.

As noted above, the Company proposes to maintain the same rate structure by imposing a minimum customer charge with a volume allowance of 3,000 gallons and a commodity charge for both the residential and commercial customers.

Staff does not oppose the Company proposal to maintain a rate structure consisting of a minimum customer charge with volume allowance, and a commodity charge. Staff believes that this rate design is still appropriate for the Company for the following reasons. First, the total number and type of customers have not changed significantly since the rate was set by the Commission in 1996 (144 customers in 1996 and 147 in 2009). Second, there is not much variability of the sizes of service meters for various customers. The Company indicated that out of 146 residential customers, 143 have 3/4-inch service meters (98%) and 3 customers have 1-inch meter. Staff Production Request No. 2. Third, this rate design is simple, easy to implement and understand. Finally, the current rate structure is a common rate design for small metered water utilities regulated by the Commission.

In response to Staff Production Request No. 9, the Company indicated that its rationale in maintaining the 3,000-gallon minimum charge volume allowance was that this figure was used in the past and that the Company simply has not thought to do it differently. However, the Company concedes it is open to suggestions. Response to Request No. 9. The Company further states “We are using the same rate structure for this application but would like input from the IPUC on modifying the rate structure if there is one that would be a better fit for our water system. Company Work Papers, page 2. Staff believes that the minimum charge volume allowance of 3,000 gallons is low compared to other small water systems regulated by the Commission.

Staff conducted an analysis to determine the appropriate level of volume allowance for the various types of customers. The Company provided Staff with four years of water use data from 2007 to 2010 (partial data). Monthly readings, however, were not available although the total volume of water sold was recorded every 6 months during the winter season and every two months during other times of the year. Using the total amount of water sold during the winter period (6 months usage from November to April) in 2006-07, 2007-08, 2008-09 and 2009-10, the average monthly winter usage was calculated by dividing the total volume of water sold by the number of months between the readings and the number of customers. The average winter usage for four years per residential customer was 5,455 gallons per month (146 residential customers). See Staff Comments Attachment 7 for detailed calculations. This methodology for establishing the appropriate minimum customer charge volume allowance is consistent with the method used by Staff in recent general rate cases for small water utilities such as Case No. BCS-W-09-02 and Case No. FLS-W-09-01. Also, in Commission Order 30455 (Case No. DIA-W-07-01) the Commission addressed the monthly volume allowance issue and states:

...Some customers recommended increasing the monthly allowance of water to as much as 10,000 gallons per month, others recommended reducing it to as little as 0. Staff reasoning in lowering the base monthly amount of water allowance is appealing; however, we believe the reduction from 7,500 to 4,000 per month goes too far. Instead, we find that the monthly allowance should be 5,500 gallons **which coincides with the average winter usage which can be considered "minimum."** (Emphasis added.)

The average winter usage for one commercial customer for the same period is 5,292 gallons per month. Staff believes that the average winter usage for residential and commercial customers is not significant enough to warrant different volume allowance for each customer class. Therefore, Staff recommends a minimum customer charge volume allowance of 5,000 gallons per month for all types of customers. Meters are not read for 6 months during the winter season when they are not accessible but the Company bills the customers with the minimum customer charge during the regular billing period. When meters are read in April, any gallon overage is computed and assessed at that time.

During the field investigation conducted by Staff on September 1, 2010, it was found that there are 12 duplex residential units served by the Company. These duplexes are considered by the Company to be single family residential customers. Staff agrees that these duplex customers should be billed as individual residential customers because they are also served by ¾-inch service lines and meters. In addition, the annual average monthly usage of the duplex customers

(17,775 gallons) is comparable to the annual average monthly usage during the year of the single family residential customers (15,015 gallons). Staff Comments Attachment 8 presents the 3-year monthly average volume of water sold and the monthly annual average for residential customers.

Staff supports the Company's proposal to have a rate design with a different minimum customer charge for commercial and residential customers for the following reasons: a) the commercial customer has a larger service line and meter (1-inch) compared to the residential customers (3/4-inch); b) the Company maintains a 500 foot 4-inch distribution line solely serving the commercial customer which would generally require more annual operating and maintenance costs; and c) the average annual monthly usage of the commercial customer is 45,509 gallons per month or about three times the average annual monthly usage of the residential customer (15,015 gallons per month).

As indicated previously, Staff's adjusted test year annual revenue requirement for the Company is \$40,391. Using this adjusted revenue requirement and the recommended rate design discussed above, Staff recommends a minimum customer charge of \$11.52 with a volume allowance of 5,000 gallons and a commodity charge of \$1.05 per 1,000 gallons for water usage above 5,000 gallons for residential customers. Likewise, Staff recommends a minimum customer charge of \$15.50 with a volume allowance of 5,000 gallons and a commodity charge of \$1.05 per 1,000 gallons for water usage above 5,000 for commercial customers. A comparison of rates, rate design and rate spread for existing Company and Staff's proposals are shown in the summary table below.

<b>TYPE OF CUSTOMERS</b>	<b>EXISTING RATES</b>	<b>COMPANY PROPOSAL</b>	<b>STAFF PROPOSAL</b>
<b><u>Residential</u></b>			
Min. Customer Charge	\$5.50	\$13.31	\$11.52
Volume Allowance	3,000 gallons	3,000 gallons	5,000 gallons
Commodity Charge	\$0.60 per 1,000 gals	\$1.45 per 1,000 gals	\$1.05 per 1,000 gals
<b><u>Commercial</u></b>			
Min. Customer Charge	\$7.50	\$18.15	\$15.50
Volume Allowance	3,000 gallons	3,000 gallons	5,000 gallons
Commodity Charge	\$0.60 per 1,000 gals	\$1.45 per 1,000 gals	\$1.05 per 1,000 gals

To assure that the Staff's rate design meets the recommended revenue requirement, Staff developed a rate proof sheet as presented in Staff Comments Attachment 9. The total revenue for the commodity charge was calculated using a normalized 3-year average (2007, 2008 and 2009) annual excess volume usage of 19,080,000 gallons (18,596,000 gallons for residential +

484,000 gallons for commercial). The normalized excess volume was calculated by analyzing individual water usage for each customer per billing period. The total calculated revenue is \$40,403, or about \$12 over Staff's recommended revenue requirement. Staff believes that this rate design is reasonable and appropriate for Troy Hoffman. The total revenue contributed by minimum customer charge is 50% and the revenue contributed by the commodity charge is 50%. With the current rates, approximately 46% is contributed by the minimum customer charge and 54% by the commodity charge. Staff believes that the change in percent contribution of the minimum customer charge from 46% to 50% is warranted to bring more balanced revenue collections throughout the billing period. In addition, Staff generally establishes revenue derived from the base rate and commodity rate based on the percentage of fixed and variable expenses targeting a 50/50 split. In the case of Troy Hoffman, the amount of current operation expenses are approximately 65.7% fixed and 34.3% variable costs. The Commission has allowed a small water utility to recover as high as 72% of its revenue from the minimum customer charge. Order No. 30027, Case No. FLS-W-05-01.

Based on Staff's proposed rate structure, the average monthly bill for a residential customer with an annual average monthly water usage of 15,015 gallons is \$22.04, an increase of \$9.33 or 73% from current rates. The last rate case for Troy Hoffman Water setting the monthly rate of \$5.50 per month plus \$0.60 per 1,000 gallons for residential customer consumption was approved by the Commission in 1996 (Commission Order No. 26545). The total increase of 73% in this case is equivalent to an annual increase of 5.28% since the last increase. The rate impacts for residential customers with different monthly water usage are presented in Staff Comments Attachment 10.

For comparison, Staff reviewed and calculated the residential monthly billing costs using the current tariffs for regulated small water companies operating in northern Idaho. Using an average consumption of 15,015 gallons, Staff found that the \$22.04 average monthly bill for residential customers of Troy Hoffman under the Staff's proposed rate design compares favorably with monthly average billings of various other small water companies, ranging from \$17.63 to \$54.05 per month. See Staff Comments Attachment 11.

