

SWC CASE APPLICATION AND EXHIBIT INSTRUCTIONS

INTRODUCTION

The owners and operators of small water companies often do not possess the knowledge and expertise necessary to file an Application with the Idaho Public Utilities Commission (Commission) to change rates for water service to their customers. Included with these instructions are a sample Application, sample customer notice, a set of exhibits and sample Supplemental Schedules the owner/operator may use for this purpose.

Use of the enclosed exhibits and samples does not guarantee that the rates the company is requesting will be approved by the Commission. The Commission Staff (Staff) will review the Application, audit the books and records of the water system, review consumer complaint records and make its own recommendation to the Commission regarding the rates and charges of the water system. Interested customers or customer groups may also formally intervene in the case or offer comments regarding the Application. A workshop or formal hearing may be conducted or the Application may be processed under modified procedure without hearing. If a hearing is scheduled, it will be open to the public and conducted in the vicinity of your service area in order that you and any of your customers will not be unduly inconvenienced. The Idaho Public Utilities Commissioners will weigh the evidence presented to them and make a determination regarding the appropriate rates for the water system.

APPLICATION

The attached sample Application is in a legal format designed to cover all of the required information. Complete the Application by inserting the required information where indicated by underlined parenthetical examples. The case number indicated at the top right of the first page will be assigned by the Commission Secretary when the Application is received by the Commission. You will be informed of the case number; all further correspondence regarding the case must be referenced to this number. The requested effective date indicated on page 2 of the Application must be at least 30 days after the date the Application is filed with the Commission. Any officer or employee of the company may represent the company before the Idaho Public Utilities Commission. Legal counsel, though not required, may be retained to represent the company and may expedite processing of the Application.

An Original and seven (7) copies of the completed Application and attachments identified as exhibits should be filed with:

Idaho Public Utilities Commission
PO Box 83720
Boise, Idaho 82720-0074
Attn: Secretary

Two (2) copies of the workpapers and supplemental schedules must also be included with the Application when it is filed.

Upon recommendation from Staff, the Commission may determine that modified procedure is appropriate for the case. In this instance, a shorter less formal process with a workshop only and no formal hearing will be used.

In the event the case is not handled under modified procedure and proceeds to a formal hearing, you will be required to provide written testimony in support of the Application. The Commission Staff will provide you with a sample copy of the required format for the testimony if it is required.

EXHIBITS AND ATTACHMENTS

Exhibit No. 1, Schedule A provides the detail of your plant in service accounts. It is constructed in the same format as page 5 of your annual report to the Commission. You may not have investments in all of the plant accounts identified on this exhibit. Column (A) of this exhibit should match the annual report filed for the year used as the test period in your Application.

In Column (B) you may adjust the actual test year balances for known changes that have occurred subsequent to the end of the test year or will occur within one (1) year of the test year-end. It is incumbent upon you to provide workpapers showing the development of the adjustments and provide proof that the changes have or will occur within the one (1) year period.

You must provide the detail of each adjustment in the workpapers and provide a summation workpaper of all the changes. The summation of the adjustments should be entered in Column (B) of this exhibit.

Column (C) is the adjusted test year balance of the plant in service accounts. It is simply the summation of Columns (A) and (B). The totals on line 29 should be entered on line 1 of Exhibit No. 1, Schedule C.

Exhibit No. 1, Schedule B provides the detail of your accumulated depreciation accounts. It is constructed in the same format as page 6 of your annual report to the Commission. You may not have any depreciable investment for some of the accounts identified on this exhibit. Column (A) of this exhibit should match the annual report filed with the Commission for the year used as the test period in your Application.

In Column (B) you should adjust the actual test year balances for additional depreciation that will be recognized in the twelve months following the end of the test period including any additions to the plant in service accounts recognized on Exhibit No. 1, Schedule A, Column (B).

You must provide the detail of each adjustment in the workpapers and provide a summation workpaper of all the changes. The summation of the adjustments should be entered in Column (B) of this exhibit.

Column (C) is the adjusted test year balance of the accumulated depreciation accounts. It is simply the summation of Columns (A) and (B). The totals on line 26 should be entered on line 2 of Exhibit No. 1, Schedule C.

Exhibit No. 1, Schedule C is the calculation of the rate base used to determine your total revenue requirement. The rate base is the investment in system assets reduced by accumulated depreciation, advances and contributions for

construction received from customers or developers plus an allowance for working capital. The working capital allowance may not always be allowed if it can be shown that your cash flow lag on payment to creditors and employees exceeds your cash flow lead time on prepayments by analyzing the source and Application of funds shown on your balance sheet. Generally small companies will qualify for this allowance. The Commission Staff will always perform an analysis of your balance sheet to determine if this allowance is appropriate. Staff's calculation will be provided to you before any decision is made by the Commissioners.

Lines 1 and 2 of this exhibit were developed on Exhibit No. 1, Schedules A and B and should be carried forward to this schedule.

Column (A), lines 4 through 8 and line 10 should match the annual report filed with the Commission for the test period. References are provided to show you where to find the appropriate numbers in your annual report. Line 9, working capital (discussed above) cannot be calculated until you have completed Exhibit No. 2, Schedule B.

In Column (B) you may adjust the actual test year balances for known changes that have occurred subsequent to the end of the test year or will occur within one (1) year of the test year-end. It is incumbent upon you to provide workpapers showing the development of the adjustments and provide proof that the changes have or will occur within the one (1) year period.

Column (C) is simply the test year balances adjusted for the known changes identified in Column (B).

Lines 4 and 6 of this schedule should be blank unless you have purchased another water system at a price greater than its net book value AND the Commission has approved the purchase price and authorized you to record an acquisition adjustment for the premium paid. If you are requesting Commission approval of such a transaction at this time you must provide an explanation of the transaction in your Application and provide workpapers showing the detail of the acquisition.

The totals on line 11 are the summation of lines 3, 4, 5, 9 and 10 less lines 6, 7 and 8. The total amounts on line 11 should be entered on Exhibit No. 4, line 1.

Exhibit No. 2, Schedule A, Column (A) of this revenue exhibit should be taken from page 3, lines 1 through 11 of your annual report to the Commission for the test period. If the DEQ fees are not billed separately to your customers but are included in your base rates, do not enter anything on line 9. If hookup or connection fees are treated as contributions in aid of construction, do not include them on line 10. If the Commission has authorized the collection of any special surcharges dedicated for a special purpose, include the amount of the surcharges collected during the test period in Column (A) and then eliminate them in Column (B). Make sure you make an offsetting adjustment either to plant in service (Exhibit No. 1, Schedule A) or Operating Expenses (Exhibit No. 2, Schedule B), whichever is appropriate.

In Column (B) you may adjust the actual test year balances for known changes that have occurred subsequent to the end of the test year or will occur within one (1) year of the test year-end. It is incumbent upon you to provide workpapers showing the development of the adjustments and provide proof that the changes have or will occur within the one (1) year period.

If you have made adjustment to other exhibits to recognize changes due to growth, you must make adjustments on this exhibit to recognize that growth. Your workpapers must show how you developed the adjustments.

The totals developed on line 12 of this exhibit should be carried forward to line 1 of Exhibit No. 2, Schedule C.

Exhibit No. 2, Schedule B presents the detail of operating expenses. This schedule is presented in the same format as page 3 of your annual report to the Commission and the amounts in Column (A) should match the annual report for the test period. As with the previous schedules, Column (B) is for the purpose of adjusting the test period for known changes. If any other schedule has been adjusted to recognize growth, this schedule must also be adjusted for changes in expenses caused by that growth. Your workpapers must provide the details of how the adjustments were developed.

The totals shown on line 22 should be carried forward to line 2 of Exhibit No. 2, Schedule C.

Exhibit No. 2, Schedule C is the income statement for your company. It is presented in the same format as page 4 of the annual report to the Commission. Column (A) of this schedule should match the annual report filed with the Commission for the test period. As with previous schedules, Column (B) is for the purpose of adjusting the test year data for known and measurable changes. This schedule must be adjusted for any adjustments made to previous schedules that would have an effect on any of the items shown on this schedule. For example, a change to plant in service shown on Exhibit No. 1, Schedule (A) would affect depreciation expense line 3 on this exhibit. You must include workpapers showing the development of each adjustment.

If you eliminated DEQ fees billed separately to customers from your revenues on Exhibit No. 2, Schedule A you must also eliminate the fees paid by you to the DEQ on line 9A of this schedule.

The net income developed on line 32 of this schedule should be carried forward to Exhibit No. 4, line 4.

Exhibit No. 3 develops your weighted cost of capital also referred to as the required rate of return (ROR). The ROR is composed of the weighted cost of your debt and the investment you have made (equity) in the water system.

Line 1 is the amount of investment the owners have made in the company. Line 2, retained earnings, is composed of the amount of earning realized in past periods that have not been paid out to the owners and have been reinvested in the company.

The common equity amount on line 1, Column (A) should match the amount shown in your annual report to the Commission for the test year at page 8, line 8 less the amounts shown on lines 4 and 5 of the annual report page.

The retained earnings amount shown on line 2, Column (A) should match the sum of lines 4 and 5, page 8 of the annual report to the Commission.

The short-term debt amount shown on line 4, Column (A) should match the amount shown on line 13, page 8 of the annual report.

The long-term debt amount shown on line 5, Column (A) should match the sum of the amounts shown on lines 9 and 11, page 8 of the annual report to the Commission.

If you will be incurring additional debt or investing additional owner capital to provide for expansion or improvement to the system and have made adjustments to the plant in service (Exhibit No. 1, Schedule A), you may recognize these additional capital sources on this exhibit but you must provide a workpaper showing the development of the adjustments.

If you have debt instruments (bonds or notes) that are due within the 12 months following the end of the test period, you may adjust this exhibit to recognize the debt retirement or rollover. You must provide a workpaper showing the development of the adjustments.

Column (B) of Exhibit No. 3 calculates the weight (% of total) of each component of your total capital. The percentage is calculated by dividing the amounts shown on lines 3, 4 and 5 by the total amount shown on line 6 of Column (A).

Column (C) is the cost to the company of each capital component expressed as a percentage. For example, you have a 20-year note (long-term) payable to your bank at an interest rate of 8% per annum. Your cost for this capital source is the indicated 8% interest rate. If you have more than one outstanding note of each type of debt, you must submit a workpaper showing the calculation of the weighted cost of all the outstanding notes. If you have been authorized to impose a special surcharge to pay one or more of these notes, do not include the notes in these calculations.

The cost of common equity, line 3, is the rate of return you believe is reasonable for you, as owners, to earn on your investment in the company. You must provide a workpaper showing why this return is reasonable and support the return with a comparison of returns you could earn on comparable investments with similar risks.

Column (D) is the weighted cost of each capital component. It is calculated by multiplying the ratio percentage (Column (B)) by the cost (Column (C)).

The sum of the weighted costs, lines 3, 4 and 5, Column (D) produces the total weighted cost of capital or ROR on line 7, Column (D). This amount should be carried forward to Exhibit No. 4, line 2, Columns (A) and (C).

Exhibit No. 4 is the calculation of your required revenue requirement and the deficiency, if any, that you want to recover through the rate increase.

The rate base, line 1 was developed on Exhibit No. 1, Schedule C. The rate of return, line 2, was developed on Exhibit No. 3. The income required to produce the required rate of return, line 3, is calculated by multiplying line 1 by line 2. The income realized, line 4, was developed on Exhibit No. 2, Schedule C and is subtracted from line 3 to produce the income deficiency shown on line 5. The amount on line 5, Column (C) is the amount of the rate increase necessary to achieve the required rate of return.

Commission staff has created a Model Tariff for use by small water companies. This model should be incorporated by the company as part of the rate case process. All recurring and non-recurring charges should be included in Rate Schedules at the front of the tariff. The Rules and Regulations section of the Model Tariff is approved as written by the Commission. Changes to the rules and regulations or supplemental rules and regulations for which the company seeks approval should be included in Paragraph 14.

The Uniform Main Extension Rule has also been approved by the Commission as written. Changes to the rules or supplemental rules should be submitted for approval.

Exhibit No. 5 is a copy of your existing residential tariff(s) showing the changes you propose by drawing a line through existing rates, charges and language and showing the proposed rates charges and language. Proposed tariffs that are new should also be included.

A sample Exhibit No. 5 is included in the exhibit package.

Exhibit No. 6 is a copy of your existing commercial tariff(s) showing the changes you propose by drawing a line through existing rates, charges and language and showing the proposed rates charges and language. A sample Exhibit No. 6 is included in the exhibit package. If you have no commercial tariff, include an exhibit marked as Exhibit No. 6 that states "NO COMMERCIAL TARIFF".

Exhibit No. 7 is a copy of your proposed residential tariff with rates, charges and language for which you are seeking Commission approval. A sample Exhibit No. 7 is included in the exhibit package.

Exhibit No. 8 is a copy of your proposed commercial tariff with rates, charges and language for which you are seeking Commission approval. A sample Exhibit No. 8 is included in the exhibit package. If you have no commercial tariff, include an exhibit marked as Exhibit No. 8 that states "NO COMMERCIAL TARIFF".

Exhibit No. 9 is a copy of the tariff form to be used to state either existing or proposed non-recurring fees for such items as initial hook-up and reconnection. If there are no recurring fees, an exhibit using this form should be included stating "No Recurring Fees".

Exhibit No. 10 is a copy of the notice you mailed directly to your customers informing them of your Application to the Commission to increase your rates and

charges and the similar notice published in the local newspaper. A sample Exhibit No. 10 is included in the exhibit package.

FILE ONLY 2 COPIES OF THE FOLLOWING SUPPLEMENTAL SCHEDULES.

Supplemental Schedule 1 is a schedule of monthly water use by your customers. You must indicate whether the data provided is in ccf (hundreds of cubic feet) or 000s of gallons. This schedule should be prepared on an individual customer basis. **Do not identify customers by name** but retain enough detail in your records to make it possible to identify a particular customer should it become necessary. A sample Supplemental Schedule 1 is included in the exhibit package. You may substitute copies of customer billings if it is more efficient. If copies of bills are provided please block out the customer name. If you have no metered customers insert a page identified as Supplemental Schedule 1 that states "NO METERED CUSTOMERS".

Supplemental Schedule 2 is a schedule of monthly water pumped or delivered into your system from every source for each month of the test period. You must indicate whether the data is provided in ccf (hundreds of cubic feet) or 000s of gallons. If you do not have flow meters on each source of supply, so indicate and explain why such equipment has not been installed on your system. A sample Supplemental Schedule 2 is included in the exhibit package.

Supplemental Schedule 3 is a schedule providing detailed information on each of the company's wells. A sample Supplemental Schedule 3 is included in the exhibit package. Show the information for each existing well. If a new well is under construction or anticipated to be constructed within 12 months of the end of the test year, indicate the anticipated completion date and your best estimate regarding the information requested on this schedule.

Supplemental Schedule 4 is a schedule providing detailed information on each of the company's storage reservoirs. A sample Supplemental Schedule 4 is included in the exhibit package. Show the information for each existing reservoir. If a new reservoir is under construction or anticipated to be constructed within 12 months of the end of the test period indicate the anticipated completion date and your best estimate regarding the information requested on this schedule.

Commission staff has created a Model Tariff for use by small water companies. This model should be incorporated by the company as part of the rate case process. All recurring and non-recurring charges should be included in Rate Schedules at the front of the tariff. The Rules and Regulations section of the Model Tariff is approved as written by the Commission. Changes to the rules and regulations or supplemental rules and regulations for which the company seeks approval should be included in Paragraph 14.

The Uniform Main Extension Rule has also been approved by the Commission as written. Changes to the rules or supplemental rules should be submitted for approval.

WORKPAPERS (FILE ONLY TWO COPIES)

Workpapers providing full details and explanations of any adjustments to the actual test year data must be provided with reference to which exhibit(s) are affected by the adjustments.

You may prepare the workpapers as you wish but complete detail regarding the justification for the adjustments must be included. References to source documentation must also be included. You may be required to provide copies of referenced documentation if it is not included in your workpapers.