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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF ALGOMA WATER)
COMPANY'S APPLICATION FOR APPROVAL) CASE NO. AWS-W-07-1
TO SELL THE WATER COMPANY AND FOR)
AN ORDER AUTHORIZING INCREASES IN)
THE COMPANY'S RATES AND CHARGES FOR) COMMENTS OF THE
WATER SERVICE.) COMMISSION STAFF
)

The Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Donald L. Howell, II, Deputy Attorney General, submits the following comments in response to Order No. 30526 issued on April 18, 2008.

BACKGROUND

In July 2007, Algoma Water Company filed an Application seeking Commission approval to sell the Company (and transfer its Certificate of Public Convenience and Necessity No. 396) to Mr. Robert J. Carrier. In addition to the sale of the Company, Algoma requested a significant increase in its monthly flat rates for water service.

In August 2007, the Commission issued a Notice of Application and set a deadline for intervention. Order No. 30405. No persons petitioned to intervene. The Commission then issued a Notice of Parties in September 2007. Thereafter, the Company and Staff engaged in protracted

discovery. On March 27, 2008, the Company requested that its initially proposed rate be increased. Based upon this request, the Commission issued an Amended Notice of Application and determined to process this Application by Modified Procedure. Order No. 30526. The Amended Notice was served on every customer.

In the Application, Mr. Greenwood proposed to sell Algoma Water (and apparently the three non-regulated sewer systems) to Mr. Carrier for approximately \$161,000. Attachment D, Addendum No. 2. As part of the Application, Mr. Carrier submitted a financial statement. The Application indicated that Mr. Carrier has a background in real estate and “income producing business management.” Application at 1. Mr. Carrier has been investing in Bonner County since 2004 and also owns real estate in Nevada. The Application stated that Mr. Carrier possesses the financial ability to assume responsibility for the Algoma Water System. *Id.*

In addition to the financial statement, the parties also included an abbreviated business plan that explains how Mr. Carrier intends to incorporate the water company into his other businesses in Idaho. Briefly, Mr. Carrier intends to retain Bob Hansen of Water Systems Management, Inc., to continue the overall management of the Company and continue the services of Terry Deal (Deal Pump & Electric) for operational maintenance and emergency purposes. Finally, the business plan indicated that Mr. Carrier intends to continue to employ Ms. Brittain as the bookkeeper/accountant. Ms. Brittain has been Algoma’s bookkeeper for the last five years.

Algoma recently requested a greater increase in its monthly flat rates for service than was originally sought in its July 2007 Application. The Company now proposes to increase its existing monthly flat rates for service as set out below:

Commercial Rate: from \$28.15 to \$54.00 per month

Residential Rate: from \$17.59 to \$36.00 per month

The Company’s March 2008 request states that it has been many years since there has been a rate increase. The Company anticipates making major repairs to its system during the summer of 2008. It further states that the Company is operating “in the red with negative net income” and requests an expedited review.

STAFF ANALYSIS

Staff has reviewed the Company’s Application along with the financial records of Algoma Water Company for the years 2004-2007, Commission Orders and prior Staff audits. Based upon this review, Staff is generally supportive of the Company’s Application requesting an increase in

rates and the transfer of Certificate of Necessity and Convenience No. 396 from Paul Greenwood to Robert Carrier, as discussed in further detail below.

A. System Description

The Algoma water system serves the Algoma Addition Subdivision. The subdivision is located in Bonner County about six miles south of Sandpoint.

The water system is supplied by one deep well with a pump rated at 96 gallons per minute (GPM) capacity and with a storage reservoir holding 60,000 gallons. There are two booster pumps capable of delivering water from the reservoir into the distribution system consisting mostly of 6-inch PVC pipe with one section of 8-inch PVC pipe serving commercial customers. According to Water System Mgt., Inc. (current operator of Algoma Water) the system is not individually metered and does not have meter boxes. As-built drawings for the system are inadequate to properly identify individual shut off valves from the distribution main to the customer service line. A flow meter was installed at the pump house to measure total water production and usage. Algoma Water indicated that there are no plans for meter installations for individual customers.

According to Algoma Water, the system can service 30 customers. At present, there are 27 customers being served, 21 residential and six commercial customers. Assuming a peak household demand of 3 GPM, the total requirement for 27 customers is approximately 81 GPM, which is well below the 96 GPM rating of the pump operating without the reservoir. The Company does not expect additional hook-ups in the near future.

B. Transfer of Ownership

Upon the sale of a utility from one party to another, Staff evaluates the transaction to determine if it is in the public interest, the bona fide intent of the buyer, and financial ability of the buyer to assume the responsibilities of providing adequate service to the customers. Staff has reviewed the financial information provided by Mr. Carrier and believes that Mr. Carrier possesses the financial wherewithal to continue the uninterrupted obligations of Algoma Water Company.

The business plan submitted by Mr. Carrier states his intent to maintain the current system operator, bookkeeper and pump supplier, which will help ensure that the transaction will have little impact on customers. Mr. Carrier has also been investing in real estate in northern Idaho, and Staff is satisfied with his intentions of maintaining the water system. Staff believes it serves the public interest for the Commission to approve the sale.

Mr. Carrier also owns and operates three community sewer systems in Bonner County, near the area of Algoma Water Company's service territory. Staff has concerns with the potential to comingle funds and the impact from activities between the water utility and these unregulated affiliated companies. The danger of transactions between affiliated businesses is that the pressure for profits creates a risk for customers that management may shift the costs and burdens of company operations so that the beneficial aspects flow to the affiliates and the burdensome aspects flow to the regulated water company.

During its review, Staff did not discover any affiliated transactions between the unregulated sewer systems and Algoma Water. The financial bookkeeping of the water company is on a stand-alone basis, and should continue to operate that way. Staff does recognize that there are similarities between the businesses which may provide some economies of scale when purchasing equipment for maintenance and repairs, and reminds the Company that in those instances, the cost of the equipment should be allocated among all companies receiving a benefit from the purchase of such equipment.

The sale of Algoma Water Company was finalized on April 1, 2007 and Mr. Carrier has been operating the system since that date. Mr. Carrier continues to use the service of Water Systems Management as operator of the system and retains the bookkeeping services of Ms. Brittain. Given that the system has been operating without customer complaints since the date of sale and the same personnel are in place to operate the business, Staff has no objections to the transfer of the certificate to Mr. Robert Carrier. Staff recommends the Commission approve the sale.

C. Revenue Requirement

The Company's current rate structure was approved by the Commission in May 2002, as part of Order No. 29013. That Order authorized the Company to continue the rates and water service previously established and approved for the Algoma water system. The current rates consist of flat rates for residential service of \$17.59 per month and \$28.15 per month for commercial service. Based upon our audit, Staff determined that the current rates are not sufficient to cover the operating costs of the system. The Company has operated at a loss for three of the past four years, as shown in the table below:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Revenue	\$ 5,930.98	\$ 7,662.81	\$ 5,680.52	\$ 6,002.77
Expenses	8,846.08	5,884.00	9,266.66	10,803.34
Net Income	<u>\$(2,915.10)</u>	<u>\$ 1,778.81</u>	<u>\$(3,586.14)</u>	<u>\$(4,800.57)</u>

The previous owners did not record any rate base (physical plant) and therefore the rates in effect did not reflect a return on capital investment. All improvements made to the system, dating back to at least 2004, were accounted for as repairs and maintenance (expenses) and not capital improvements. Additionally, the purchase price of the system when purchased by Paul Greenwood from Larry Neu in 2006 was recorded off the books and not recoverable in rates, presumably because all plant was considered contributed capital. Staff recommends the same treatment for the current transaction. The purchase price paid for the system by Robert Carrier should not be recorded as rate base or earn a return and as such should not be recoverable in rates from customers.

The Company's financial statements and Annual Report for 2007 indicated total annual expenses of \$10,803.34. Staff uses the expenses for 2007 as the test year expenses for determination of the annual revenue requirement except for two adjustments discussed below in further detail and illustrated on Attachment 1.

The first adjustment removes from test year expenses \$17.55 for penalties paid by the Company. Staff removes this expense because late fees and penalties are not expenses that should be passed on to customers and recovered in rates.

Staff's second adjustment is to Repairs and Maintenance Expense. The Company expensed \$5,131.46 for repairs in 2007, the bulk of which was for labor to repair a leak in the water main. A similar leak occurred in 2006. The Company stated that major repairs are expected for this coming summer at an estimated cost of \$4,000. The repairs are consistent with what can be anticipated of an aging water system. The table below illustrates the increasing cost of maintenance on the system since 2004.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Repairs and Maintenance	\$ 825.40	\$ 1050.92	\$ 4,565.24	\$5,131.46

Staff is concerned with the high level of maintenance expenses in that they may not be recurring and thus should not be recoverable in rates as if they would occur every year. However, Staff is also cognizant of the capital intensive nature of small water companies and the financial

burden imposed on the owners. Therefore Staff recommends a more level amount of \$4,000 to be included in rates, which is also anticipated to cover the scheduled expenses for 2008 and provide additional funds for repairs and maintenance in the future years. Staff notes that this amount is higher than the average repairs for the previous four years of \$2,893. If more expensive repairs are necessary, the Company has some options available when seeking rate recovery. The expenditures could be capitalized as plant assets and the Company could seek to recover the associated annual depreciation expense, along with a return on investment. Major capital improvements or installing individual customer meters may also justify a request for a surcharge, in which the Company could recover the costs. However, Staff believes that \$4,000 is an appropriate level for maintenance and repairs.

In setting rates for small water companies, Staff typically adjusts Water Testing Expenses to recover a multi-year average of annual testing expenses. Because water tests are required at different times on different schedules, some tests only being required once every nine years, the multi-year averaging methodology spreads the recovery of all testing expenses equally over a period of time. With multiple changes in ownership of Algoma Water Company, historical records for water testing were not available. However, Staff met with the Water Quality Analyst at the Coeur d'Alene offices of the Idaho Department of Environmental Quality who provided the testing requirements for the Algoma system, which are shown on Attachment No. 2. Based on this information, Staff recommends an annual level of Water Testing Expense of \$615.89, which is the annual average of all required tests.

Staff's recommended adjusted Revenue Requirement for Algoma Water Company is \$10,002.22, as shown on Attachment 1. This represents an increase of approximately \$4,000 (or 67%) over the 2007 revenue of \$6,002.77.

D. Rate Design

In its initial Application for a monthly rate change filed with the Commission on July 18, 2007, the Company proposed to increase the flat rates for residential customers to \$30 per month and \$40 per month for commercial customers. On March 27, 2008, the Company amended its Application and proposed increasing the flat rates for residential customers to \$36 per month and \$54 per month for commercial customers. The Company justifies this change because it is expecting major repairs on the system during the summer of 2008.

Staff recognizes the Company's desire to keep all the rates simple and because the system is not individually metered, Staff believes that maintaining a flat rate design is appropriate.

The Company's proposed rate design causes the residential customers to receive a greater percentage increase than the commercial customers. As proposed by the Company, the percent rate increase for residential customers is 104.7% and 91.8% for commercial customers. Staff believes that a rate design based on a uniform percent rate increase to both customer classes is more appropriate.

As indicated previously, the Staff-adjusted annual revenue requirement for the Company for the test year is \$10,002.22. Using this adjusted revenue requirement, Staff calculated the new monthly flat rates of \$27.00 for residential and \$44.50 for commercial, a 53.5% and 58.1% increase, respectively. A comparison of the current rate, the Company's proposed rates and Staff's proposed rates are shown in the summary table below.

EXISTING RATES				COMPANY'S REQUEST			STAFF'S PROPOSAL		
Customer Class	No. of Customers	Current Rate	Current Revenue	Proposed Rate	Proposed Revenue	Percent Increase	Proposed Rate	Proposed Increase	Percent Increase
Residential	21	\$17.59	\$4,432.68	\$36.00	\$9,072.00	104.7%	\$27.00	\$6,804.00	53.5%
Commercial	6	\$28.15	\$2,026.80	\$54.00	\$3,888.00	91.8%	\$44.50	\$3,204.00	58.1%
Total	27		\$6,459.48		\$12,960.00			\$10,008.00	

E. Other Operational and Maintenance Issues

Staff requested that the Company provide records of water production data for the water system for the past five years. The Company indicated that monthly readings were made at the well house meter between April 11, 2006 and September 20, 2007. Based on these readings, an average monthly production during the period was calculated to be 524,765 gallons or 19,435 gallons per customer. However, during Staff's visit at the facility on April 23, 2008, the well meter log book indicates that there were missing monthly records from September 2007 to March 2008. Staff also noted that the well house meter was no longer functioning. Staff stresses the importance of collecting well production data and recommends that the Company replace the well meter as early as possible. Staff is also concerned about the irregular reading of the well meter and recommends that the Company reads the meter continuously on a monthly basis. This will provide a good base of production data which could be used in managing the system, especially since individual

customer meters are not installed. For example, water production in one month that is significantly higher than the same month in a previous year could indicate a system leakage subject to investigation and repair by the Company.

Staff contacted the Coeur d'Alene Regional Office of the Idaho Department of Environmental Quality (IDEQ) to check on Algoma's compliance with DEQ regulations. IDEQ informed Staff that a Sanitary Survey was conducted by IDEQ on July 22, 2005 on the Algoma water system. Sanitary Survey is an onsite review of the water source, facilities, equipment, operation and maintenance of a public water system for evaluating the adequacy of such source, facilities, equipment, operation and maintenance for producing and distributing safe drinking water. Generally, for community water systems, IDEQ conducts a Sanitary Survey every three (3) years, with some exceptions. During the 2005 Sanitary Survey, IDEQ found several deficiencies that must be addressed which were contained in its letter to the Company in July 28, 2005. Staff discussed these deficiencies with the Company and IDEQ, and it appeared that all these deficiencies were corrected by September 2006.

The Commission also received comment from a customer indicating that the drain field for all the septic tanks is just two lots away from the well and it contaminates the well regularly. The Company indicated that the drain field has no influence on water quality for the Algoma water system. Staff notes that test results done in 2006 reported to IDEQ indicate no violations for nitrate and fecal coliform which are potential contamination indicators from sources such as leachate from septic tank and sewage or from human and animal wastes. Staff contacted the Company to find out if there have been recent tests for microbial contaminants. In 2006 and 2007, the Company performed monthly bacteria testing and the required annual nitrate tests were also completed. Copies of 2007 test results were provided to the Staff. Staff reviewed the data and it appears that results of microbial and nitrate tests are in compliance with IDEQ's drinking water quality standards.

The customer comment also indicated that the shut-off valve serving the customer's property could not be located by Algoma Water personnel when the customer requested to be shown its location. Staff notes that the system is not individually metered and does not have meter boxes. Staff also notes from the Algoma water system design plans that each customer is provided a ¾-inch shut-off valve (curb stop). Staff asked the Company how they stop the flow of water to a customer in case of emergency or when requested by the customer. The Company indicated that the drawings for the system are inadequate to properly identify individual shut-off valves from the

distribution main to the customer service line. Rather than digging up every customer service, the Company is addressing this issue as the need arises. In few cases, valves have been located by the Company. However, most of shut-off valves could not be located and the Company believes that these valves have been buried under the pavement over the years during road improvement. The Company affirms that if a customer requests a service line shut off, the Company would locate the service line and a new shut-off valve would be installed.

The Company's plan to locate shut-off valves when the customer requires a service line shut off appears reasonable if it is not an emergency situation. However, if there is a sudden break in the service line on the customer side of the shutoff valve, excessive damage to the customer's property may occur if the Company has not already located the shut-off valve. Staff recommends that Algoma works with Staff in developing a plan and cost estimate to properly identify and mark approximate locations of the individual shut-off valves before problems occur.

During the Staff's review of Algoma's water rights, it was found that the latest owner of record of the Company's water right is Goldan, Inc. Staff contacted the Idaho Department of Water Resources (IDWR) and confirmed that Goldan, Inc. is still the owner of the water rights. No application for change of ownership of the water rights has been made to date. IDWR indicated that an appropriate form must be filed with IDWR for change of water right ownership if there is a change of ownership of the public water system. Verification of system water rights could be complicated when IDWR starts the water rights adjudication process in northern Idaho if the water rights ownership is not updated. Staff recommends that Algoma should file the required notice in water rights ownership as soon as possible.

CUSTOMER RELATIONS

The Company provided notice of the proposed transfer of ownership from Paul Greenwood to Robert Carrier in a letter to customers dated June 1, 2007, which was included in the June bill. The Company provided notice of the initial proposed rate increase in a letter mailed to customers August 10, 2007, and published a notice in the Bonner County Daily Bee on August 16, 2007. These documents meet the requirements of the Utility Customer Information Rules (UCIR), IDAPA 31.21.02.000 et seq.

When the Company responded to the second set of Staff Production Requests in March 2008, it included a proposal to revise its rate increase request. Additional revenue was requested to cover the costs of scheduled repairs to be done this summer. Notification of this change to the

originally proposed rates was included in Commission Order No. 30526 and sent to all customers on April 11, 2008.

The General Rules and Regulations section of the Company's tariff was submitted by the Company in its original Application and does not comply with current Commission requirements. Staff is willing to assist the Company in this update by providing a sample tariff including the Commission's General Rules and Regulations for Small Water Utilities in electronic format for ease of editing. The Rules Summary provided by the Company, updated in 2006, fulfills the requirements of the Utility Customer Relations Rule 700 (IDAPA 31.21.01.700) and is currently being mailed to existing customers on an annual basis.

The Company's billing statements and disconnection notices meet the requirements of the Commission's Customer Relations Rules, IDAPA 31.21.01. However, the example of a past due billing notice provided by Algoma suggests that the Company postpones disconnection efforts for several months after a bill has become due and payable. The Company has expressed concern about the effectiveness of its past due notices and disconnect procedure. The Company states that some customers do not pay until after the second and final notice has been mailed, and some customers make partial payments rather than paying off the entire balance past due. Staff appreciates the willingness of the Company to work with customers of limited financial means, but also recognizes the Company's need for consistent cash flow to operate. Staff recommends that the wording of its past due billing statements and its disconnection notices be revised. Staff is willing to work with the Company in revising its documentation and improve collection procedures including the implementation of a late payment charge if approved by the Commission. 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 this charge in its Application, the 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 Company states that it has never disconnected a customer, has never denied service to a customer, and does not require deposits from either new or existing customers. At the present time, disconnection is not a cost-effective method for the company to use for collection of past due accounts. The absence of meter boxes on the unmetered system hampers the Company's ability to identify the exact location of some shut-off valves. Having to search for and excavate shut-off valves makes disconnection time-consuming and expensive, which, combined with its willingness

to give customers additional time to pay, has lead to the Company's reluctance to disconnect service. Revising its collection procedures and implementing a late payment charge would give the company a cost-effective means to encourage customers to pay on a timely basis.

The Commission received two written comments from customers regarding this case. The comments received to date expressed concern about the percentage of increase rather than the total monthly rate. One of the comments included system design issues that were addressed above.

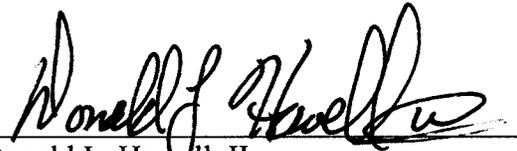
The Company says that they have had no requests for conferences or complaints from customers. The Consumer Staff have received no informal complaints or inquiries during 2007 or 2008 to date. No customers attended the Staff public workshop held April 22, 2008.

STAFF RECOMMENDATION

- Staff recommends that the Commission approve the sale of Algoma Water Company to Robert Carrier as well as the transfer of Certificate of Public Convenience and Necessity No. 396.
- Staff recommends that the purchase price of Algoma Water Company be recorded off-book and not recovered through rates.
- Staff recommends that the adjusted revenue requirement based upon a 2007 test year be set at \$10,002.22 per year.
- Staff recommends that the Commission approve a flat rate tariff consisting of \$27.00 per month for residential customers and \$44.50 per month for commercial customers as presented in the Rate Analysis table.
- Staff recommends that the Commission direct the Company to develop and implement a plan for identification of Company shut-off valves at service lines to customers.
- Staff recommends that the Commission direct the Company to immediately replace the well meter and continuously record monthly water production meter reading.
- Staff recommends that the Commission direct the Company to update its documentation to meet current UCRR requirements.
- Staff recommends that the Commission direct the Company to revise its bills and notice to comply with UCRR.

- Staff recommends that the Commission approve a late payment charge of 1% per month on any balance owing at the time of the next monthly billing to encourage its customers to pay in a timely manner.
- Staff recommends that the Commission direct the Company to update water right ownership with IDWR as soon as possible due to the recent sale of Algoma to Robert Carrier.

Respectfully submitted this 25th day of April 2008.



Donald L. Howell, II
Deputy Attorney General

Technical Staff: Donn English
Gerry Galinato
Chris Hecht

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Algoma Water Company
 AWS-W-07-01
 Attachment 1
 Staff Calculation of Annual Revenue Requirement

2007 Expenses	Algoma Books	Staff Adjustment	Staff Revenue Requirement
Bank Charges	\$ 32.00		\$ 32.00
Lab Testing Fees	268.00	347.89	615.89
Licenses and Permits	215.00		215.00
Maintenance Management	1,926.00		1,926.00
Miscellaneous	41.16		41.16
Penalties	17.55	(17.55)	-
Postage and Delivery	38.22		38.22
Professional Fees	1,278.00		1,278.00
Printing and Reproduction	30.33		30.33
Repairs and Maintenance	5,131.46	(1,131.46)	4,000.00
Property Tax	386.16		386.16
Utilities	1,439.46		1,439.46
Total Expenses	\$ 10,803.34		\$ 10,002.22

Algoma Water Company 2007 Revenue	\$ 6,002.77
Staff Recommended Revenue Requirement	\$ 10,002.22
Percentage Increase	66.63%

Algoma Water Company
Annual Cost of Water Testing
AWS-W-07-01

Tests	Amount	Frequency	Annual Cost
Coliform Sample	\$ 16.00	monthly	\$ 192.00
Nitrate Analysis	\$ 20.00	annual	\$ 20.00
Arsenic Analysis	\$ 20.00	3 years	\$ 6.67
Organic Group	\$ 200.00	3 years	\$ 66.67
VOC Analysis	\$ 250.00	6 years	\$ 41.67
Synthetic Org. C	\$ 2,000.00	9 years	\$ 222.22
Lead & Copper	\$ 200.00	3 years	\$ 66.67
			<u>\$ 615.89</u>

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 25TH DAY OF APRIL 2007, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. AWS-W-07-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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SECRETARY

CERTIFICATE OF SERVICE