

Bitterroot Water Co., Inc.

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Hayden Lake, ID 83835

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IDAHO PUBLIC
UTILITIES COMMISSION

Jean Jewell
Idaho Public Utilities Commission
PO Box 83720
Boise, ID 83720-0074

Express Mail: 472 W Washington
Boise, ID 83702-5983

Re: Case No. BIT-^W7-05-1

Dear Ms. Jewell:

Please find attached our response to the COMMENTS OF THE COMMISSION STAFF. The Company would like to thank the Staff for all of their hard work in reviewing the Company's application for rate increase.

Sincerely,



Susan Jacobson
Accounting Department

CC: Copy 1

Copy 2

Copy 3

Attached: Proposed Press Release/Customer Notice

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In response to the COMMENTS OF THE COMMISSION STAFF, the Company would like to respond to each of the adjustments as follows:

Adjustment A – Salaries

As the Staff stated in the COMMENTS, the Company is hard to compare to other small water companies due to the location and lot sizes of the Company. More man hours are necessary due to these factors. Ken Rickel believes that he can give his customers the best value for the lowest price by doing primarily all of the operational and maintenance tasks himself that are usually given to outside contractors in small water companies where the owners are not involved. This is not to say that he shouldn't be compensated for his services simply because he is the owner. Mr. Rickel has drawn less salary in 2005 than 2004 so that a new pump could be bought when the old one failed (see Adjustment H). The Company understands the Staff's reasoning for the Administrative and General salary reduction, but would ask that the Operation labor expense be increased by the \$1,176 requested due to daily chlorine testing time involved (see Adjustment G) as well as more operational labor that will be needed to institute the backflow prevention valve (see Adjustment K) and the isolation valve (see Adjustment S) implementations. At the requested rate of \$16,802 (approving the final \$1,176), Mr. Rickel would be paid \$64.62 per day, based on a 5 day week or \$17.50 per hour assuming that he works 80 hours in any given month. That includes all the operational maintenance and repairs, meter reading, collections, new customer packet delivery and being onsite while customer hookups are in progress. An outside contractor would charge \$25.00 per hour or much more to do the same tasks. As the owner/operator, Mr. Rickel is on call to handle emergencies 24 hours a day, 7 days per week. Mr. Rickel does not keep a work log of the hours he puts in, he just does what is needed when it is needed.

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Adjustment B – Purchased Water

The Company will file tariffs for the commercial sale of water to Rickel Water Company as recommended by the Staff and record water purchase/sale transactions on a lower threshold (more frequent) basis.

Adjustment C – Purchased Power

The Company acknowledges Staff's decrease in proposed expense of \$141.

Adjustment D - Testing Expenses

The Company acknowledges Staff's normalized recovery level of \$750 per year.

Adjustment E – Chemical Expense

The Company acknowledges the Staff's recommendation of \$1,600 for the purchase of chlorine.

Adjustment F – Well Pump Replacement

The Company understands that it has other avenues to recover the pump replacement cost when it occurs and will pursue them in the future.

Adjustment G – Chlorination

The Company agrees with the Staff that the labor portion of the testing should not be included in this cost with the chemicals needed for testing. The Company asks for the review and reclassification of time involved to Operation Labor (see Adjustment A).

Adjustment H – Booster Pump Replacement and Maintenance

The Company understands that it has other avenues to recover the pump replacement cost when failure occurs and will pursue them in the future.

Adjustment I – Meter Maintenance

The Company understands that it has other avenues to recover meter replacement costs when incurred and will pursue them in the future.

Adjustment J – Grounds Maintenance

The Company is looking at several options for weed control around the pump house and water meters. The DEQ will only allow Roundup to be sprayed but Company is hesitant because the wind blows often in that area and could damage customer lawns/gardens during application.

Adjustment K – Backflow Prevention

Staff recommends a dedicated reserve account in the amount of \$2,000 per year for 4 years or \$1.24 surcharge per month per customer for 4 years for recovery of the costs involved. The Company would prefer the surcharge method as the recovery of the costs are guaranteed and not based on the unpredictability of customer excess usage. The Company also would like to know why the surcharge only produces \$6,963.84 ($\$1.24 \times 12 \text{ months} \times 117 \text{ customers} \times 4 \text{ years}$) of cost recovery. The Company believes that a surcharge of \$1.42 per month producing \$7,974.72 ($\$1.42 \times 12 \text{ months} \times 117 \text{ customers} \times 4 \text{ years}$) would more closely recover the total estimated cost of \$8,000. The surcharge would be placed in a dedicated reserve account for tracking purposes.

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Adjustment L – Backhoe

The Company acknowledges Staff's exclusion of this item at this time.

Adjustment M – Accounting Services

In reviewing the Accounting Services adjustment (M) the Staff notes that it could not justify the additional request. The Company submits that the Staff has proposed the following:

(1) Bookkeeping Expense-Basic Books Plus	\$1,800 per year
(2) Cathy Rickel Daily Tasks	\$900 per year
(3) Tax Preparation Fee	\$550 per year
(4) Rate Case Expense Amortization	<u>\$300 per year</u>
Total Annual Expense	<u>\$3,550</u>

The Company would propose a reallocation and increase as follows:

(1) Bookkeeping Expense-Basic Books Plus	\$1,440 per year
(2) Cathy Rickel Daily Tasks	\$2,880 per year
(3) Tax Preparation Fee	\$550 per year
(4) Rate Case Expense Amortization	<u>\$300 per year</u>
Total Annual Expense	<u>\$5,170</u>

- (1) Outside bookkeeping services include monthly invoicing (create, stuff envelopes and apply postage), monthly bank reconciliations and annual report preparation for Public Utilities Commission and ID Tax Commission as well as tax return preparations.
- (2) Daily tasks include picking up payments from post office box, posting payments to customer accounts, relaying all meter reading information and customer updates to bookkeeper for invoicing, creating deposits and making bank deposits. Mrs. Rickel also coordinates and tracks the changes of ownership, produces the new customer packets, returns customer phone calls and maintains the individual customer files.

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As the co-owner, Cathy Rickel is involved to lower costs as much as possible. Mrs. Rickel stopped taking payment for these tasks in 2004 as there was not enough money for her to draw a salary for her involvement as well as pay the ongoing bills of the water company. Mrs. Rickel worked for free after March of 2004 and during 2005. This cannot continue.

A salary of \$2,880 per year (3 hours per week @ \$20/hour) is included and the Company believes this is reasonable compensation for her time. If no salary is approved for Mrs. Rickel's time on daily tasks, all those tasks will be turned over to the Bookkeeper at a higher cost and will have to be recovered through a future rate increase to the detriment of the customer.

- (3) The tax preparation fee does not change.
- (4) It should also be noted that the original request for this category did not include the Rate Increase Expenses as there were no estimates at the time the application was initially submitted. The Company is grateful for the Staff's attention to and aid in the handling of these expenses.

Adjustment N – Outside Services

The Company acknowledges Staff's reduction of this item.

Adjustment O – Property Insurance

The Company acknowledges the adjustments made by the Staff in this area. Staff recommended that the Company be allowed to recover the face value of the policy (\$4,439) plus the \$195 finance charge on an annual basis. The finance charge would allow the Company to make the insurance payment in installments to better regulate cash flow. The amount that is shown as Property Insurance on the Results of Staff Audit detail is \$4,439, which does not include the \$195 finance charge as recommended by the Staff. This item needs to be added.

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Adjustment P – Misc General Expenses

The Company acknowledges Staff's reduction of this item.

Adjustment Q – Bank Charges

Company agrees that the \$35.00 fee should not be recovered from the current rate increase. However, the Company asks that the reduction be reclassified to its proper location on the Results of Audit Staff detail report from "Other" (no expense initially exists in this category) to the "Miscellaneous General Expenses" where the charge was initially recorded.

Adjustment R – Taxes

The Company acknowledges Staff's reduction of this item.

Adjustment S – Isolation Valves

The Company would prefer a surcharge method as the recovery of the costs are guaranteed and not based on the unpredictability of customer excess usage. The Company believes that a surcharge of \$2.67 per month producing \$29,989.44 ($\$2.67 \times 12 \text{ months} \times 117 \text{ customers} \times 8 \text{ years}$) would recover the estimated total cost of \$30,000 (60 valves @ \$500 each). The surcharge would be placed in a dedicated reserve account for tracking purposes.

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TARIFF STRUCTURE

The Company agrees with the intent of the rate increase to promote water conservation by the customers. By increasing the commodity rate this purpose may be achieved. The Company is encouraged that this will have the desired effect, but the downside could be less income to the Company for ongoing operating and maintenance costs. The Company proposes the following rates:

Minimum Charge	\$21.00 per month per customer
Surcharge-Backflow valves	\$1.42 per month per customer (4 years)
Surcharge-Isolation valves	<u>\$2.67</u> per month per customer (8 years)
Total standard charge	\$25.09 per month per customer

This charge would be reduced with the expiration of the surcharges in 4 and 8 years respectively.

Commodity charge @ \$1.72/1000 gallons for gallons used over 15,000

The above charges were calculated using the following assumptions:

Total Revenue Requirement	\$50,968
(per Results of Staff Audit)	

Adjustments:

Salary Increase	\$1,176
Accounting Labor Increase	\$1,620
Property Insurance Increase	<u>\$195</u>
Adjusted Total Revenue Requirement	<u>\$53,959</u>
65% to be recovered through standard charges	\$35,073.35
35% to be recovered through commodity charges	\$18,885.65

Structure:

Minimum	\$21.00 X 117 customers X 12 months	\$29,484.00
Surcharge #1	\$1.42 X 117 customers X 12 months	\$1,993.68
Surcharge #2	\$2.67 X 117 customers X 12 months	\$3,748.68
Commodity Chg	\$1.72/1000 gallons X 10,879,888 gal	<u>\$18,713.41</u>
Projected Annual Revenue		<u>\$53,959.77</u>

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CONSUMER ISSUES

As stated in the COMMENTS OF THE COMMISSION STAFF, a Notice to Customers of Proposed Changes in Rates was filed with the initial Application. The Staff COMMENTS state that this notice did not comply as it did not include the overall dollar amount requested or the percent of the increase. As per the attached copy of the Notice that was included with the initial filing, the proposed amount of the rate increase is indeed included, while the Company agrees that the percent of the increase was not initially included.

The COMMENTS state also that the Company was notified of the need for the above changes and that the Company took no action. The Company was NOT notified regarding any changes needed for the Notice nor was there any direction from the PUC as to when this notice should be sent out to Customers. If the Company had been notified as stated the Company would have made immediate corrections and sent out the notice to customers as directed. The Company's willing compliance and promptness in all other requests for information during the application and audit phases of this project supports this fact. A miscommunication by the PUC should not be construed as the Company being out of compliance.

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Bitterroot Water Company Requests An Increase in Rates Citing Rising Power and System Improvement Costs

CONTACT: Ken Rickel, President
(208) 208-683-8105 or 208-660-2560

Bitterroot Water Company has filed a request with the Idaho Public Utilities Commission for a rate increase in the base water rate from \$20 per month to \$45 per month to help offset the increasing costs associated with the operation, maintenance and capital improvements to the water system. There would be no increase in the charge for gallons used in excess of the 15,000 base amount allowed.

The company last filed for a rate increase in 1998 while serving 54 customers. The system has now expanded to serve 116 customers and is considered to be at capacity based on the number and size of the lots now included in the subdivision. Further growth would be based on subdividing existing lots.

In the last 12 months, the system has been systematically reviewed and upgraded to maintain compliance with increasingly tougher government standards for water quality. The increased operating expenses are largely out of the company's control. Rising power costs play the biggest role in recent operating expense increases.

The rate proposal is subject to public review and will be reviewed and approved by the Idaho Public Utilities Commission. A copy of the application is available for public review at the Bitterroot Water Company Office and the office of the Idaho Public Utilities Commission.

Bitterroot Water Company, organized in 1995, is an independent owner-operated water utility whose purpose is to supply water for domestic, commercial, industrial and fire protection purposes. The Company is subject to the regulations of the Idaho Public Utilities Commission as well as various Federal and State regulatory agencies concerning water quality standards.