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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF BITTERROOT WATER COMPANY FOR AUTHORITY TO INCREASE ITS RATES	**CASE NO. BIT-~~T~~W-05-1**
	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 Modified Procedure and Notice of Comment Deadline issued on October 20, 2005, submits the following comments.

BACKGROUND

On June 15, 2005, Bitterroot Water Company, Inc. (Bitterroot; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting a change in its tariff rates from a metered base rate of $20 per month to a metered base rate of $45 per month. No change is proposed in the commodity charge per 1,000 gallons of water consumed in excess of 15,000 gallons per month. According to the Application, the proposed increase is to help offset the increasing costs associated with the operation, maintenance and capital improvements to the water system.

The Company's filed Annual Report for the year ending December 31, 2004 reflects annual revenue of $35,619 and annual operating and regulatory expenses of $39,233, a net loss of $3,614. The Company proposes a 2004 test year with known and measurable adjustments of $35,593 occurring in 2005 to determine its proposed revenue requirement of $71,212.

Bitterroot Water Company was established in 1995 by developer Bruce Burnett to provide water service to the Silver Meadows subdivision in Kootenai County near Athol, Idaho. It has been operating under the regulation of the Idaho Public Utilities Commission since December 14, 1995 when the Commission issued Certificate of Public Convenience and Necessity No. 319. Case No. GNR-W-95-2, Order No. 26268. On June 17, 2003, Bruce Burnett filed documentation with the Commission for the sale of the water system's common stock to Cathy and Kenneth Rickel, the owner and operators of Rickel Water Company, a public water utility adjacent to and interconnected with the Bitterroot system. Order No. 29330 issued on August 28, 2003 approved the sale of Bitterroot to the Rickels but stated that the purchase was a personal investment and therefore not recorded on the books of the corporation or recoverable from ratepayers. Staff has confirmed that the purchase price of the system is not recorded on the books and Bitterroot is not seeking recovery of its investment in this case.

STAFF COMMENTS

Commission Staff performed a detailed audit of the Company's Application and financial records, with an onsite audit occurring on October 11, 2005. The audit consisted of a review of Annual Reports, Commission Orders and prior Staff audits, along with a physical inspection of the plant and distribution system and interviews with Company personnel. Staff verified the accounting figures as reported on the Company's books and records. Staff also reviewed the Company's internal controls and billing procedures along with sample invoices for water service. The reservoir and pumping facilities were inspected and the Company's maintenance practices and improvements were reviewed and discussed. As a result of the audit, Staff recommends a revenue requirement of $50,968, an increase of $15,349 or 43.09 percent. Staff proposes a variety of adjustments to the Company's request as illustrated on Attachment A and described in detail later in this report.

System Characteristics

Upon review during a visit to the water system site, Bitterroot Water appeared to be in acceptable condition with the exception of peak season heavy demand on the well and booster pumps and some underground valves which were installed in an incorrect application and are subject to corrosion and leakage. The concrete 100,000 gallon reservoir was clean and the pump and equipment house built on top of the reservoir was clean and in good condition. The single 120 gpm well pump is sufficient to meet the needs of the company in all but the highest use months. Interconnection with the Rickel Water system provides an alternative source of supply in the event of capacity shortfall or pump failure (125 gpm well pump). There are two booster pumps, one rated 30 hp and the second at 15 hp. There are plans already underway to add a third booster pump (also 15 hp). In normal instances only one booster pump is required to meet system demand, however, during peak hours the 30 hp booster pump cycles on and off repeatedly with very short cycle time. The chlorination system was functioning and the Owner reported that it is maintained monthly and checked frequently.

As of December 31, 2004, Bitterroot had 117 customers connected to the system with a maximum monthly consumption of 5,979,502 gallons (July) and an annual consumption of 23,228,000 for the year 2004. The Annual Report states that 19,550,709 gallons were pumped from its well by the Company, 4,239,770 gallons purchased from Rickel Water and 2,219,000 gallons sold to Rickel water in 2004, for a net purchase of 2,020,770. Rickel Water Company is a public utility operated under common ownership with Bitterroot and there is a charge of $3.00 per every 10,000 gallons sold between the two companies. During 2004, a net of approximately $600 worth of water was exchanged between the two companies. Staff recognizes the need to sell water back and forth between the two companies to alleviate constraints on the system during peak summer months, however, neither company has a tariff on file with the Commission regarding such sales. In its order upon completion of this case, Staff recommends the Commission instruct Bitterroot to file the appropriate tariff for commercial sale and purchase for resale of water with justification for the rate.

Expense Adjustments

In its Application, the Company seeks recovery of $39,233 in expenses incurred in 2004 with an additional request for recovery of $31,979 of pro forma expenses (Adjustments A – P). Staff reviewed the 2004 expenses for prudency and the pro-forma expenses for necessity. Staff response to the Company's pro forma adjustments follow along with additional adjustments proposed by Staff to test year expenses (Adjustments Q-S):

Adjustment A – Salaries

During 2004, the owners of Bitterroot Water Company paid themselves wages of $15,349 allocated between meter reading labor, administrative and general (A&G) labor, and operation labor. In its Application, Bitterroot requested an additional $2,351 to be paid to the owner for operation and management of the system, specifically an additional $1,175.50 for operation labor and another $1,175.50 for administrative and general labor. Staff compared the salary request to other water companies of similar size. In Order No. 29794 issued June 1, 2005, the Commission granted a $4,000 annual management fee to the owners of Country Club Hills Utilities, Inc. (CCH), a water utility company near Idaho Falls serving 119 customers. The owner of Terra Grande Water (Terra Grande) in Boise does not receive any salary or management fee while providing service to 117 customers. Using these comparisons alone, the additional salary does not seem to be warranted. However, Bitterroot Water Company is different in that the owner personally does the maintenance and repair work himself and does not incur additional expenses by outside contractors. Additionally, the service area of Bitterroot is considerably larger than the service areas of Terra Grande and CCH. The lot sizes in the Bitterroot service area are five to ten acres, as opposed to the much smaller lot sizes of other utilities, making the Bitterroot system more time consuming to read all the meters and perform routine maintenance. Furthermore, as discussed later in this report, the system is at an age where the maintenance requirements are increasing from year to year. For these reasons, Staff believes that the Company's request to increase the operation labor is reasonable. However, Staff does not recommend approval of the requested increase for administrative and general labor. Staff reduces the Company's request by $1,175.50 and recommends approval of the Company's remaining pro-forma adjustment of $1,175.50 for operation labor.

Adjustment B – Purchased Water

The Company proposes to recover $200 per year for water purchased from Rickel Water. However, the Company did not record any payments on its books for water purchases, even though it is known that water was transferred from Rickel to Bitterroot and vice versa. Bitterroot only records a purchase on its books when net purchases exceed $1,500. Because of the common ownership of the two companies, no approved tariff and no purchases recorded on its books during 2004, Staff does not believe this adjustment to be appropriate. In the future, Staff would like to see detailed transaction reports of water exchanged before it can recommend recovery of the expense.

Adjustment C – Purchased Power

The Company states that the electricity rates it pays for power to run its water pumps have increased an average of 15 percent per year. In its Application, the Company makes a pro forma adjustment to test year purchased power expense of $1,098, or 15 percent above 2004 levels. This estimate of 2005 purchased power fails to satisfy the Commission's requirement that post test-year adjustments be known and measurable. The Commission has historically rejected estimates and forecasted figures as known and measurable, therefore Staff must reject this specific adjustment.

Staff understands how increasing utility bills can impact small water companies with its reliance on electricity to drive pumps. Staff reviewed the actual electric bills for the Company through September 2005, and extrapolated the total through December to determine a more precise, measurable purchased power expense to include in rates. Staff's calculation provides the Company with $8,280 annually for purchased power compared to the 2004 actual expense of $7,323. This adjustment reduces the Company's proposed expense by $141.

Adjustment D – Testing Expenses

The Company requests an additional $240 over 2004 test year expenses to help recover the costs of increased monthly testing requirements for lead, copper, fluoride, in-organics, volatile organics and nitrates. Because testing requirements and expenses vary from year to year, the Commission has traditionally accepted a normalized level of $750 per year per groundwater well source. Bitterroot only has one well source and therefore Staff approves recovery of $750 for testing expenses.

Adjustment E – Chemical Expense

A comment from one Bitterroot customer indicated that he did not believe there was adequate residual chlorine in the water system. While the minimum allowable residual chlorine requirement of 0.20 ppm is not easily detectable by smell or taste, it is believed that the amount of chlorine being used is adequate. Review of a letter from DEQ dated August 5, 2004 showed that DEQ did recommend chlorination to prevent a recurrence of biological film in the system. The chlorination system has been operated continuously for the past year and the amount of sodium hypochlorite used during the year was discussed with DEQ engineers.

The Company requested in its Application an additional $1,554 for the purchase of chlorine. Though the chlorination is suggested rather than required for this system, Staff believes it is appropriate. Staff does not object to this adjustment, however, Staff takes exception to the amount the Company is requesting to recover for chlorine testing (see Adjustment G).

Adjustment F – Well Pump Replacement

During the peak water usage month of July, usage per customer varied from a 4,100 gallon low to a high of 213,500 gallons. The average customer water usage for that month was 53,400 gallons. The system runs at maximum capacity during the peak summer months and the Company must purchase water from Rickel Water Company to meet demand as previously discussed.

Even with the purchase of water from Rickel Water, the Bitterroot well pump is heavily used in the peak months (more than 50 percent duty), which results in more on-off cycles and more run time than is recommended for good maintenance and life of the motor and pump. This results in higher maintenance costs and shortens the life of the pump and motor. In its Application, the Company requests an additional $2,231 annually to recover the cost of a new 20 HP well pump over four years. However, conversations with the Company indicate that they currently have not yet formalized plans to replace the pump and motor with a larger set. The Company is aware of the issue and plans to address well pumping capacity soon. Because well pump replacement is not imminent, Staff recommends that the Commission not allow this expense to be recovered in rates at this time.

When the Company is ready to replace the well pump, it has other options available under the regulatory framework to recover the cost at that time. The correct recordkeeping procedure of capitalizing the pump by booking it to plant in service Account 101 will allow the Company to recover the depreciation expense and earn a return on the investment in future rate proceedings. The Company may also propose an additional surcharge if needed when the replacement becomes imminent.

Adjustment G - Chlorination

In its Application, the Company is requesting to recover $9,700 annually for chlorine testing and maintenance for the chlorine pumps. Because the chlorination system was recently installed, the test year did not reflect any of the expenses associated with the practice. The Company estimates the cost of routine chlorination testing to be $25 per day or $9,000 annually, but much of this requested expense includes Ken Rickel's time. Because Mr. Rickel already receives compensation for operating the system, and the testing for chlorination would fall under the responsibilities of the operator position, Staff believes much of this adjustment is duplicative. Of the $25 per test the Company requests, Staff believes that at least $20 was included to pay the operator for administering the tests. Staff is willing to accept $5 per test or $1,800 per year for the supplies used to administer the tests. Staff accordingly adjusts the Company's request by $7,200.

Adjustment H – Booster Pump Replacement and Maintenance

Following failure of the single 15 hp booster pump last year (shaft fracture) the Company elected to add a third pump (15 hp to match the existing) and to inventory a spare motor and impeller for the two 15 hp booster pumps. The second 15 hp booster pump and spare motor/impeller set have been purchased and will be installed before next summer. Installation of the second pump will include an electronic system to alternate run time between the new and the existing 15 hp booster pump. The 30 hp booster pump will be both a backup and serve as a fire protection pump when hydrants are used. These actions are considered prudent for safe reliable operation of the system.

In its Application, Bitterroot requested $2,971 amortized over four years for a new 15 HP booster pump and another $5,118 amortized over four years for a new 30 HP booster pump. Because the current 30 HP pump is still operational and the addition of a second 15 HP pump eliminates the constraints on the existing 30 HP pump, Staff believes the purchase of a 30 HP pump is no longer necessary. The second 15 HP pump was purchased by the Company and therefore is a known and measurable expense that should be recovered in rates, however, Staff disagrees with the Company's proposed accounting treatment of the pump. The booster pump is a capital investment that should be booked to plant in service and depreciated over its useful life. Staff believes the useful life of a 15 HP booster pump should be at least seven years. The corresponding depreciation expense when using a seven-year estimated useful life is $425. Staff removes the $2,622 adjustment proposed by the Company for booster pump replacement and maintenance, and creates a depreciation expense of $425 for recovery. Because the Company has previously expensed all capital investments, the Company did not propose a rate base in this proceeding. By booking the booster pump to plant in service, the corresponding rate base and return would be as follows:

Plant in Service	$ 2,971
less Accumulated Depreciation	< 0 >
Net Plant in Service	$ 2,971
Rate of Return	11%
Return on Capital	$ 327

Staff believes a return on equity of 11 percent is appropriate for Bitterroot Water Company in this proceeding and increases the Company's revenue requirement by $327 for its return on capital investment.

Adjustment I – Meter Maintenance

The Company has proposed to begin replacing meters based on information from a vendor that meters become inaccurate in the 1,000,000-gallon total flow range. It is recognized in the water industry that water meters mostly under-record flow the older they become. Although one technical paper was reviewed that proposed economic replacement of meters at 1,400,000 gallons based on under-measurement of flow and the high cost of water in Arizona, that paper was inconclusive regarding the economics of replacement. All other data reviewed consistently stated that meters have an expected life of 10 to 25 years and that maintenance, cleaning and calibration should be performed at least every seven to ten years (National Environmental Services Center, "Water Meters", Zane Sutterfield, P.E. and Vipin Bhardwa). There are several meter brands available that are intended for 10,000,000 gallons or more of service (DLJ and American Meter Co. for example). The water meters installed at Bitter Root Water are Kent C700 and Badger RCDL 70 meters. Both are bronze cast body meters and should have a much longer life than 1,000,000 gallons. With these specific meters, if accuracy due to wear of the measurement parts is a concern, the Company can maintain the meters by removing the measuring chamber assembly for repair or replacement. Some vendors offer an exchange service for replacement of measuring cartridges. It is recommended that the Company consider a maintenance action of replacing some of the older measuring chamber cartridges and test the accuracy of the removed cartridges to determine what need for replacement exists. These costs should be a part of routine maintenance.

The Company requested in its Application an additional $3,050 over the test year amount of $1,537 for meter maintenance. Staff does not accept this adjustment and believes the test year figure allows the Company sufficient revenue for meter maintenance. If meters need to be replaced, the Company should capitalize the cost of those meters with recovery in a later case.

Adjustment J – Grounds Maintenance

The Company is seeking an additional $346.14 per year for grounds maintenance; specifically $38.46 per month for nine months for weed control measures. The Company's test year expense of $35 is not sufficient and therefore an adjustment is necessary. However, Staff believes that one or two properly timed applications of weed control would be adequate. Staff accepts a pro forma adjustment to test year expenses of $54, and reduces the Company's pro forma request by $292.

Adjustment K – Backflow Prevention

The Company has proposed to implement installation of 1-inch angle check valves for backflow prevention for all customers at a total system cost of $2,000 per year over a four-year period. Idaho Drinking Water Standards do not require backflow prevention at the residential connection, however the practice is required in other northwestern states. Given that there is no backflow prevention presently installed for domestic use on 87 of the 117 customer residences and that there is no way of positively determining whether any such devices are installed on the customer's irrigation systems, this program is considered prudent for health reasons and can be implemented with reasonable costs and effort.

The Company has yet to begin installing the check valves and intends to initiate installation after the conclusion of this current rate case. Under proper regulatory accounting treatment, the Company would have installed the check valves prior to requesting recovery of the costs. The costs would have been capitalized with the associated depreciation expense and return on the investment recovered in rates. Staff understands that for small water companies, lack of capital makes it difficult to spend first and recover later. Therefore, Staff proposes a dedicated reserve account established with the inclusion of $2,000 per year recoverable in rates to be used solely for the purpose of testing and installing the check valves for backflow prevention. Staff would continue to audit the reserve account to assure the Commission and ratepayers that the money is being used for its designated purpose and that any funds remaining after all backflow prevention is complete are refunded to the customers. If the Commission desires a second alternative, Staff calculates that a customer surcharge of $1.24 per month for 48 months applied to all 117 customers would cover the Company's estimated cost of $80.00 per backflow prevention valve for the 87 residences that do not yet have backflow prevention devices installed.

Adjustment L – Backhoe

The Company included in its Application a pro forma adjustment of $2,000 for the purchase of a backhoe ($40,000 cost amortized over 20 years). Staff rejects the adjustment primarily for three reasons: (1) The cost of the backhoe should be allocated among Rickel Water Company, Bitterroot Water Company and personal use; (2) a substantive cost-benefit analysis comparing rental and purchase options was not performed and submitted by the Company, and (3) because the Company has not purchased the backhoe, the cost is not a known and measurable post test-year expenditure. Therefore, Staff does not believe the inclusion of the additional $2,000 is justified at this time.

Adjustment M– Accounting Services

The Company's 2004 expenses for accounting services was $2,628 consisting of $550 for the preparation of tax returns, $1,178 for outside bookkeeping services and $900 paid to the owners Ken and Cathy Rickel. The Company proposes an adjustment to test year expenses of $3,372 for total recovery of $6,000 annually for accounting services. Staff reviewed the expenses and charges for the tax preparation and bookkeeping and believes them to be appropriate. Staff was, however, unable to verify the necessity to increase the expense to $6,000 annually. Staff recommends rate case expenses of $1,500 be amortized over five years or $300 per year. Staff accepts an annual bookkeeping expense of $1,800, the tax preparation fee of $550, an amortization of rate case expenses of $300 per year and the $900 paid to the Rickels for their accounting work, for a total of $3,550. This reduces the Company's requested revenue requirement by $2,450 annually.

Adjustment N – Outside Services

In its Application, the Company requested a pro forma adjustment of $500 for preparation of the corporation's tax return. Because Staff included the tax preparer's fees in Adjustment M above, this adjustment is duplicative. Staff removes $500 from the Company's requested pro forma revenue requirement to remove the Company's oversight.

Adjustment O – Property Insurance

The Company's Application states that its test year property insurance expense was $6,803.48; and the Company is asking for a pro forma adjustment to this expense of $73.34 for a total insurance expense of $6,876.82. After reviewing the face page of the insurance policy, the total annual premium for the insurance was listed as $4,244. The difference between the amount of the premium on the face page of the policy and the amount stated by the Company is attributable to two factors: (1) The Company included in the annual insurance expense the amount it paid to the prior water system owner for pre-paid insurance at the time the Rickels purchased the water company in 2003. This extra payment totaled $2,364.48. Since this payment represents both a non-recurring expense and an out of test period expense, it should not be included in the current test year expenses. (2) The balance of $195 is a finance charge because the Company elected to pay the annual premium over time. Staff recommends the Company be allowed to recover $4,439 annually, the amount of the premium as stated on the face page of the insurance policy plus the $195 finance charge allowing the Company to make monthly payments for cash flow purposes.

Adjustment P – Miscellaneous General Expenses

The Company reported test year miscellaneous general expenses of $1,316. Included in the Company's Application is a request for an additional $640 for equipment rentals. Scrutiny of miscellaneous expenses typically results in the discovery of many one-time, non-recurring charges that should be excluded from rates because of long-standing precedent precluding a company from recovering extraordinary expenses as if they were to occur each and every year. In this case, Staff accepts the Company's test year level of miscellaneous expense but rejects the Company's pro forma adjustment. Recovery of the test year level of miscellaneous expense should provide the Company with sufficient resources for the many one-time expense that may occur during a given year.

Adjustment Q – Bank Charges

During the test year, the Company incurred a $35 bank charge by Wells Fargo for a late payment. Staff believes that this is not an appropriate expense for the Company to pass on to ratepayers and removes $35 from the revenue requirement accordingly.

Adjustment R – Taxes

The Company requested $655 as income tax expense in its Application. This represents a payment to the State of Idaho in the amount of $75 and the balance to the IRS for taxes accrued in the 2003 tax year. For the 2004 test year, the Company incurred a net operating loss for income tax purposes and no federal income tax was due. It is not reasonable to assume that the Company will continue to operate with a net loss for tax purposes, but it is reasonable to assume that the Company will incur some additional federal tax liability. Therefore, Staff has calculated federal income taxes of $49 based on its recommended revenue requirement. The income tax liability for the State of Idaho is a minimum yearly obligation of $75. Therefore, Staff sets the total tax expense at $124, reducing the Company's proposed expense by $531.

Adjustment S – Isolation Valves

After the Company originally filed its Application for a rate increase with the Commission, it was brought to the attention of Staff that the Company is incurring additional expenses not stated in its request. When the mains were originally installed, the service stubs were installed for each lot with an isolation valve buried at the termination point. These original individual residential isolation valves were bronze gate valves, which are not designed for direct burial. In the past two years these valves have begun to fail, resulting in leaks and lost pressure. The failures are only discovered when the leaks are of sufficient size to either be heard or to create a surface water problem.

The Company believes that 60 of these valves remain in service and proposes a proactive maintenance program aimed at replacing at least eight valves per year for the next several years (more than eight if there are additional failures). The replacement valves will be of a fully encapsulated body and stem design intended for direct burial. The estimated cost of replacement including backhoe time, labor and materials is $500.00 per valve. Staff deems this pro-active maintenance prudent, and as such, recovery is appropriate. Staff recommends a second dedicated reserve account with $4,000 annually to replace, on average, eight valves per year. Staff will continue to audit the Company verifying the expenditures for the valve replacement and the balance in the reserve account to ensure that ratepayers are not being unduly over-charged.

TARIFF STRUCTURE

The existing tariff structure includes a $20.00 per month minimum charge and a commodity rate of $0.75 per thousand gallons of usage over 15,000 gallons in a month. The Company requests an increase of the minimum monthly charge to $45.00 without a change to either the amount of water included in the minimum or any change in the commodity rate. With this structure approximately 80 percent of 2004 revenue was derived from the minimum monthly charge and 20 percent from sale of commodity (approximately $28,300 and $7,300, respectively).

Given the significant peak placed on the system's well and booster pump capacity in 2004 and the growing recognition that the Rathdrum Aquifer is not an unlimited resource, Staff believes it is reasonable to alter this split to cause a larger percentage of the Company's revenue to be from the commodity rate. Additionally, there were several comments received from Bitterroot customers suggesting that any increased tariff rely more heavily on commodity charges than on the minimum charge. Staff proposes to increase the percent of revenue collected through the commodity charge from 20 percent to 35 percent. A tariff structure of $24.00 per month plus $1.65 for each 1,000 gallons of usage over 15,000 gallons will provide revenue of $51,648, based on the water sales of the test year (2004). Attachment B provides a rate proof showing revenue generated at Staff proposed rates.

CONSUMER ISSUES

Staff has reviewed the Application for Service. A Notice to Customers of Proposed Changes in Rates was filed with the Application. This Notice did not meet IDAPA 31.21.02, Rule 102.01 in that the overall dollar amount requested was not listed, nor was the percent of the increase. The Company was notified regarding the omission of information. Unfortunately, the Company did not send either the original or a corrected Notice of Proposed Changes in Rates to customers. This is in violation of IDAPA 31.21.02, Rule 102.01. The Company did, however, around October 27, 2005, individually notify customers by postcard of the Workshop held on November 2, 2005.

Staff has also reviewed the Company bills, notices, and other forms, and has found a few minor changes that need to be made. The Summary of Rules sent annually to customers clearly and correctly states the hours service can be terminated, (only between the hours of 8:00 a.m. and 4:00 p.m. Monday through Thursday, and 8:00 am and 2:00 p.m. on Friday or any day immediately preceding any legal holiday). However the Final Notice of Water Termination form states that water will be terminated by 5:00 p.m. To avoid any misinterpretation by customers, Staff suggests leaving out "BY 5:00 P.M." on the Final Notice form.

Also in the Summary of Rules, the Company states that customer will be charged an NSF fee of $25. Staff supports the Company charging an NSF fee; however, only the maximum amount allowed by statute $20 should be charged. (I.C. 28-22-107). Staff recommends that the NSF fee be separately identified in the Company's tariff.

There have been no customer complaints filed with the Public Utilities Commission from Bitterroot Water Customers over the past three years. Other than the water pressure problems identified by customers in comments filed in this case, Staff is not aware of any customer relations issues.

Staff held a public workshop in Athol on November 2, 2005, which was very well attended. Approximately 50 customers were present and actively participated in the workshop.

By noon on November 15, 2005, the Commission had received twenty written comments from Bitterroot customers regarding the requested increase in rates. Several of the customers commented on more than one issue. To summarize, nine customers agreed that a modest increase in rates was probably warranted; however, they believed that the requested increase was too high. Four customers stated the water pressure was poor. Five customers stated that they would like to see the commodity rate be increased for customers using over 15,000 gallons per month. They favored a rate that would more fairly spread the costs to customers with high consumption. However, two customers commented they felt the rates for irrigation water were already too high and would like to see the commodity rate lowered.

CONCLUSIONS AND RECOMMENDATIONS

Staff has determined that a $15,349 revenue increase (43.09%) is necessary to recover the Company's revenue requirement, see Attachment A. Staff recommends the Commission approve a tariff consisting of a $24.00 minimum monthly charge and a commodity charge of $1.65 for each 1,000 gallons over 15,000 gallons per month as just, reasonable and sufficient.

Staff also recommend the Commission instruct Bitterroot Water Company to file tariffs for the commercial sale of water.

Respectfully submitted this 16th day of November 2005.

Scott Woodbury
Deputy Attorney General

Technical Staff: Donn English
Harry Hall
Carol Cooper
Joe Leckie
Dave Schunke

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BITTERROOT WATER COMPANY
BIT-W-05-01
Results of Staff Audit

	Company Reported 2004	Company Pro Forma Adjustments	Company Request Per Application	Staff Adjustments		Staff Revenue Requirement	Percentage Increase
REVENUES							
Metered Sales	35,619	35,593	71,212			50,968	43.09%
EXPENSES							
Operation Expenses							
Operation Labor	6,325	1,176	7,501	0	**A**	7,501	
Purchased Water	0	200	200	(200)	**B**	0	
Purchased Power	7,323	1,098	8,421	(141)	**C**	8,280	
Supplies & Expenses	0	240	240	510	**D**	750	
Chemicals	66	1,554	1,620	0	**E**	1,620	
Other	320	0	320	0		320	
Total Operation Expense	14,034	4,268	18,302			18,471	
Maintenance Expenses							
Maintenance of Pumping Plant	0	2,231	2,231	(2,231)	**F**	0	
Maintenance of Water Treatment Plant	0	9,700	9,700	(7,200)	**G**	2,500	
Maintenance of Distribution Reservoirs & Standpipes	0	2,622	2,622	(2,622)	**H**	0	
Maintenance of Meters	1,537	3,050	4,587	(3,050)	**I**	1,537	
Maintenance of Other Plant	35	346	381	(292)	**J**	89	
Repairs of Water Plant	916	2,000	2,916	0	**K**	2,916	
Other	181	2,000	2,181	(2,000)	**L**	181	
Total Maintenance Expense	2,669	21,949	24,618			7,223	
Customer Accounts Expense							
Meter Reading Labor	1,800	0	1,800	0	**A**	1,800	
Accounting and Collecting Labor	2,628	3,372	6,000	(2,450)	**M**	3,550	
Uncollectible Accounts	123	0	123	0		123	
Other	150	0	150	0		150	
Total Customer Accounts Expense	4,701	3,372	8,073			5,623	
Administrative & General Expenses							
Administrative & General Salaries	6,325	1,176	7,501	(1,176)	**A**	6,325	
Office Supplies & Other Expenses	994		994	0		994	
Outside Services Employed	0	500	500	(500)	**N**	0	
Property Insurance	6,803	74	6,877	(2,438)	**O**	4,439	
Regulatory Commission Expenses	598		598	0		598	
Miscellaneous General Expenses	1,316	640.00	1,956	(640)	**P**	1,316	
Transportation Expenses	911		911	0		911	
Other	0		0	(35)	**Q**	(35)	
Total Administrative & General Expenses	16,947	2,390	19,337			14,548	
Property Taxes	227	0	227	0		227	
Income Taxes	655	0	655	(531)	**R**	124	
Add Maintenance Reserve				4,000	**S**	4,000	
Add Depreciation Expense				425	**H**	425	
Total Operating Expenses	39,233	31,979	71,212	(20,996)		50,641	
Add Return on Capital						327	
Total Revenue Requirement						50,968	

Attachment A
Case No. BIT-W-05-1
Staff Comments
11/16/05

Attachment B			
BITTERROOT WATER, TARIFF STRUCTURE			
	Current, 2004	**Revenue requirement**	**Proposed**
REVENUE	**$ 39,233.00**	**$51,000.00**	**$51,647.81**
Monthly Minimum Charge Revenue		$33,150.00	$33,696.00
Total Gallons Used	22,228,000		
Gallons/ yr over 15,000	10,879,888	10,879,888	10,879,888
Commodity Revenue over 15,000 gal/cust/mo	$8,160	$17,850.00	$17,951.81
Number Customers	117	117	117
Percent Revenue from Minimum Monthly charge	**79.20%**	**65.00%**	
Percent Revenue from Commodity Charge	**20.80%**	**35.00%**	
Minimum Monthly Charge	$20.00	$23.61	**$24.00**
Commodity Charge for amount over 15,000 gallons	$0.75	$1.64	**$1.65**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 16TH DAY OF NOVEMBER 2005, SERVED THE FOREGOING **COMMENTS OF THE COMMMISSION STAFF,** IN CASE NO. BIT-W-05-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

KEN RICKEL
BITTERROOT WATER COMPANY
PO BOX 2306
HAYDEN LAKE, ID 83835

Jo Nelson
SECRETARY