

CECELIA A. GASSNER
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0314
BAR NO. 6977

RECEIVED
2006 OCT 12 PM 5:02
IDAHO PUBLIC
UTILITIES COMMISSION

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5983

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION OF)
CAPITOL WATER CORPORATION FOR) CASE NO. CAP-W-06-1
AUTHORITY TO INCREASE ITS RATES AND)
CHARGES FOR WATER SERVICE IN THE) COMMENTS OF THE
STATE OF IDAHO) COMMISSION STAFF
_____)**

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Cecelia A. Gassner, Deputy Attorney General, in response to the Notice of Modified Procedure and Notice of Public Workshop in Order No. 30124 issued on September 6, 2006, submits the following comments.

BACKGROUND

Capitol Water Corporation (“Capitol Water” or “Company”) filed a general rate case application seeking authority to increase its rates approximately 27.8%. If approved the Company’s revenues would increase by \$132,449 annually. Capitol Water provides service to approximately 287 commercial, 125 industrial and 2,293 residential customers in Boise, Idaho. The Company’s Application includes proposed tariffs and requests an effective date of August 1, 2006.

STAFF ANALYSIS

Revenue Requirement

Staff examined the books and records of the Company for the fiscal year ending December 31, 2005. A field audit was conducted in July and August 2006 at the Company's office. The purpose of the audit was to verify the accuracy of the revenues, expenses and rate base amounts included in the Company's Application; verify that the 2005 revenues, expenses and rate base amounts are in the proper accounts; and to determine if the Company's filing is reasonable.

The Company used a 2005 test year, with a year-end rate base. The audit included examination of general ledger accounts and supporting vouchers and invoices, verification of physical plant and property, and discussions with the Company owners and employees. The Company does not employ an independent auditor to audit its financial statements; however, it does employ an accounting firm to facilitate the preparation of the annual reports required by the Commission and to prepare its federal and state tax returns.

Revenues & Expenses

The Company proposes using the actual test year data for 2005. The Application is based upon the actual recorded performance of the Company for 2005 and is comparable to the 2005 annual report filed with the Commission. The actual 2005 data has not been adjusted for any known and measurable changes beyond the test year because the Company believes that the 2005 test year is indicative of the Company's continuing operations.

The operating revenues for Capitol Water are generated through proper billing under the existing tariffs on file with the Commission. The accounting for operating revenues is consistent with the requirements of the Uniform System of Accounts, as adopted by this Commission. In 2005, its actual operating revenues totaled \$475,805, and the major sources of revenue were the sale of water to unmetered residential customers (Schedule 1 - \$375,977), metered sales to commercial and industrial customers (Schedule 2 - \$94,151), and fire protection revenue (Schedule 3 - \$4,788). The Company did not propose any adjustments to revenue in the Application. Staff proposes that annual test year revenues be adjusted by \$6,493 to reflect what current rates should generate when applied to the number of existing year-end customers and the commodity consumed (Adjustment N).

The operating expenses for Capitol Water are, for the most part, properly recorded on the books of the Company. Operating expenses have increased since the last general rate case in 1995. Staff proposes adjustments to the Application that fall into the following categories:

- Reclassification of expenses between accounts,
- Removal of below-the-line expenses, or expenses that would be inappropriate to recover through rates,
- Annualization of water testing expenses, and
- Inclusion of expenses currently being paid by surcharge funds.

Staff proposes thirteen adjustments to operating expenses. These adjustments are shown on Staff Attachments A and B. The first six involve reclassifying expenses from one account to another account. The next four Staff adjustments remove expenses for ratemaking purposes as these expenses are below-the-line expenses. The following two adjustments annualize water-testing expenses, and the last adjustment includes expenses that have previously been charged to Capitol Water's surcharge fund account.

Reclassification of Expenses

Staff Adjustments A and B reclassify an accounting invoice from Account 620.70, Customer Accounting and Collections, to Account 632.00, Accounting Services. The invoice was improperly coded to the wrong account. There is no net revenue requirement impact as a result of these two adjustments.

Staff Adjustments C and D reclassify bank service fees that the Company included in Account 427.60, Interest Expense – Other, to Account 675.00, Miscellaneous Expense. The bank service fees are more properly included in the miscellaneous expense account rather than interest expense, as these charges do not represent interest expenses.

Staff Adjustment E removes expenses from Account 620.10, Maintenance–Source of Supply. The Company booked this expense to Account 620.10 in a year-end adjustment. This adjustment was reversed in July 2006 with a post-closing adjustment by the Company. The post-closing adjustment was made after the Company filed this Application. Staff agrees with the post-closing adjustment to the Company books. This adjustment reflects the removal of these expenses from the operating expense account to the surcharge account.

Staff Adjustment F reclassifies an expense invoice from Account 602.30, Dues and Memberships, a below-the-line account, to Account 620.40, Maintenance, Materials and Supplies. The invoice is for the annual membership dues of the American Water Works

Association (AWWA). The paid invoice did not include the optional amounts for lobbying or research and development, items the Commission normally disallows recovery of through rates. The American Water Works Association (AWWA) is an international nonprofit scientific and educational society dedicated to the improvement of water quality and supply. Membership in the AWWA is beneficial to customers because the AWWA is a reliable resource for current information for the water profession. AWWA provides water utilities with reliable information on technology, trends, and news through its periodicals, Web site, and media outreach.

Removal of Below-the-Line Expenses

Staff Adjustments G, H, and I remove expenses related to personal use of Company-owned vehicles. Through discussions with the Company owners and officers, Staff determined that at least 50 percent of the vehicle use is personal use and not business related.

Staff Adjustment G removes half of the cost of licensing the Company-owned vehicles driven by Company owners. Staff Adjustment H removes half of the transportation expense for the Company-owned vehicles driven by the owners.

Staff Adjustment I removes the depreciation expense attributable to one of the two Company-owned vehicles. The vehicles are depreciated over a 5-year life, using the half-year convention. The 1998 Mercury Mountaineer was fully depreciated by the end of 2003 so no depreciation expense for this vehicle is included in the test year. The 2000 Suburban was fully depreciated at the end of the test year, 2005. Therefore, it is reasonable to remove all of the depreciation expense associated with the Suburban. Because both vehicles are fully depreciated by the end of the test year, no adjustment to rate base is necessary.

The Company has continued a long-standing practice of charging all personal transportation expenses to the Company. The vehicles that are owned by the Company are often driven for personal use, yet all expenses for these vehicles are borne by the Company.

In Order No. 21185, dated April 17, 1987, Case No. U-1080-12, the Commission removed 50% of the transportation expenses associated with personal use of the Company vehicle. The Order also directed the Company to “keep accurate records so the use of its vehicles may be confirmed by an audit.” Order No. 21185, at 7.

In Order No. 24789, dated March 18, 1993, Case No. CAP-W-92-2, the Company agreed to Staff adjustments, including an adjustment to transportation expense for personal use. Staff, in direct testimony, reiterated the direction to the Company by the Commission from the prior

rate case for the Company to maintain accurate records of personal usage of Company-owned vehicles.

In Order No. 26247, dated November 27, 1995, Case No. CAP-W-95-1, as part of the Settlement Stipulation, Capitol Water agreed to “adequately document vehicle expenditures by vehicle.” Order No. 26247, at 2. In the current audit, Staff notes that repairs and maintenance expenses are documented by vehicle; however, other expenses, especially car washes and gasoline purchases, are not identified by vehicle. The monthly statement for the credit card used for the purchase lacks clarification as to which vehicle has been washed or which gasoline tank filled.

The Company has not maintained records associated with personal use of the Company vehicles, nor has the Company kept transportation expense records by vehicle. However, Staff finds it unreasonable to disallow all transportation expenses, as some level of expense is justified. In the absence of improved record keeping, Staff recommends that all gasoline and other miscellaneous purchases, such as car washes, for the vehicles driven by the owners be paid for with personal funds, and that they be reimbursed by the Company for business miles. This requires that a logbook of business miles must be kept. The owners could be reimbursed by the Company using the standard mileage rate set by the Internal Revenue Service (IRS) as a proxy for the actual cost. The IRS standard mileage rate incorporates not only gasoline, but also regular vehicle maintenance such as oil changes, new tires, and general wear and tear, including an amount for depreciation. Although both vehicles are fully depreciated, the IRS standard mileage rate is an impartial rate that could be used to reimburse business expenses to the Prices. In this way, not only would customers be paying for actual business transportation expenses, but also a clearer picture of the actual personal usage would emerge. The Staff adjustments G (\$85), H (\$3,145), and I (\$4,085), for all transportation-related expenses, are \$7,315.

Staff Adjustment J removes expenses for Company year-end holiday events for employees. The Commission has traditionally moved these types of expenses below-the-line for ratemaking purposes, as they do not directly benefit customers. The adjustment is \$392.

Annualization of Water Testing Expenses

Staff Adjustments K and L annualize the water testing expenses. Adjustment K removes the actual amount of the water testing expenses of \$2,503 included in the test year and Adjustment L replaces the actual expenses for water testing with an annualized amount of \$5,313. Because not all water tests are performed every year, and several of the tests that are

performed less frequently are quite costly, it is more equitable to use the average yearly cost of water testing expenses when setting rates. The average cost per well for all required tests is \$885.58 and the Company has six wells that require water testing. The average cost per well was calculated by the Company and is acceptable to Staff. The net Staff adjustment for water testing is \$2,810.

Inclusion of Expenses Currently Being Paid by Surcharge Funds

The first expense that is currently being paid by surcharge funds and under review by Staff is the Company's electric PCA expense. Order No. 28801 authorized the Company to charge incremental electric expenses resulting from Idaho Power Company's electric PCA surcharge(s) against Capitol Water's surcharge account by applying the Idaho Power PCA surcharge rate, which at that time was \$0.013415 per kilowatt hour (kWh), to the billed kWhs on each bill to determine the amount of the electric surcharge authorized to be charged against the balance of Capitol Water's surcharge account. The Company was directed to change the rate when the Commission approved Idaho Power PCA surcharge rate was modified. This action was taken at a time when Idaho Power had PCA surcharges reflective of the high power costs during the energy crisis of 2000-2001. The Company has continued to charge the amount of the electric PCA surcharge to the surcharge account until recently, when Idaho Power's PCA resulted in a decrease in the rate charged to customers.

The current expenses for power included in the Company's Application do not include the past portion of the PCA rate that was charged to the Company's surcharge account, and are reflective of current power expenses going forward. Although the current PCA rate is negative, Staff is not proposing a reduction in the amount of power expense included in the test year. Staff believes that the Company's surcharge funds should no longer be used for power expenses, as the 2005 test year expenses should be more than sufficient to cover the ongoing power costs of Capitol Water. In fact, due to the current Idaho Power PCA resulting in a reduction to rates, the amount included in power expenses for ratemaking purposes will most likely prove to be greater than the actual power costs going forward (at least through May 2007).

Staff makes no adjustment to the amount included in the Application. Staff recommends that the surcharge account no longer be used to pay for the excess power costs, now that the power costs are being updated in this rate case. Staff notes that the Company may file another rate case if it determines that increased power costs or other expenses necessitate filing for rate relief.

Another expense that the Company was authorized to recover with surcharge funds is the purchase of sequestering chemicals. The Company's recovery of this expense through a surcharge is somewhat unorthodox, but grew out of a prior request by the Company to take on certain debt to help improve the quality of its water. In Case No. CAP-W-02-1, the Staff noted, "that continuing operating expenses for heating fuel, sequestering chemicals and incremental water testing are part of what the Company is requesting (i.e. \$13,600 – Exhibit 3). These costs Staff notes although nominal are operating expenses that would be recognized as known changes to the Company's operating expenses in a general rate case and included in the Company's base rate design." Order No. 27022, at 5.

The Commission acknowledged Staff's point "that continuing operating expenses are included in the Company's request and are not normally the type of expense recovered by way of surcharge." *Id.* at 6. The Commission continued that, "[w]hile we agree with Staff's characterization of the expenses, we note that the expenses identified are relatively nominal in dollar amount. Given the cash flow constraints of the Company as reflected in the record, we find it reasonable to permit recovery of these amounts in the surcharge. ... We limit recovery to the authorized amounts, i.e., a principal loan amount of \$402,624.71, and an annual operation and maintenance expense figure of \$13,600. We expect actual cost figures to be substituted for these entries." *Id.*

The amount spent for phosphates from the surcharge account during 2005 is \$14,796. Staff Adjustment M includes this amount in the calculation of base rates. Since the surcharge was first implemented in June of 1997, the expenses related to the sequestering chemicals have been charged to the surcharge account. Staff notes that these expenses will continue beyond the life of the surcharge and are more appropriately reflected in base rates going forward. Absent this change, the Company likely will not have the expense amount for the chemicals in base rates when the surcharge ends, which may compromise the Company's ability to maintain its water quality.

Staff therefore recommends that the Company be directed to continue with the surcharge as it is currently in place, and that the Company no longer use surcharge funds for power expenses or sequestering chemical expenses, as Staff recommends including these expenses in base rates. This shift in the source of funds for payment for power and chemical expenses will allow the Company to retire the surcharge sooner.

Capital Structure

Staff agrees with the Company's capital structure and overall rate of return, including a return on equity of 12%, as presented. Staff accepts the Company's method of calculating working capital, one-eighth of annual Operating and Maintenance expenses. Due to Staff's adjustments to operating expenses, however, Staff suggests an adjustment to the resulting working capital. Adjustment O, as shown on Staff Attachment C, increases working capital. Staff Attachment D incorporates Staff Adjustment N in Staff's Rate Base calculation.

Staff's calculation of the proposed revenue requirement is shown on Staff Attachment E. Staff's Gross-Up Factor Calculation uses the actual bad debt expense to arrive at Staff's Net to Gross Multiplier. In discussions with the Company, Staff notes that bad debts are not particularly large, and that the amount included in the test year is typical. Therefore, Staff uses the actual amount of bad debt expense in its calculation of the Net to Gross Multiplier.

Staff proposes a revenue increase of \$137,312 or 28.47%, compared to the request by the Company of an increase of \$132,449 or 27.84%. Staff notes that its increase is slightly higher than requested by the Company, due to shifting of expenses from the surcharge accounts to base rates.

Rate Issues

System Condition

As part of its evaluation of the Company's request, Staff accompanied the owner and operator on an inspection tour of the system. All above-ground facilities were visited and inspected. A high level of cleanliness and maintenance of equipment was observed. The owner has installed newer instrumentation and keeps all equipment in good working order. The Company's shop, where repairs and modifications are made, was found to be well-organized and stocked with spare parts. Staff believes the Company is performing well in the area of operations and maintenance.

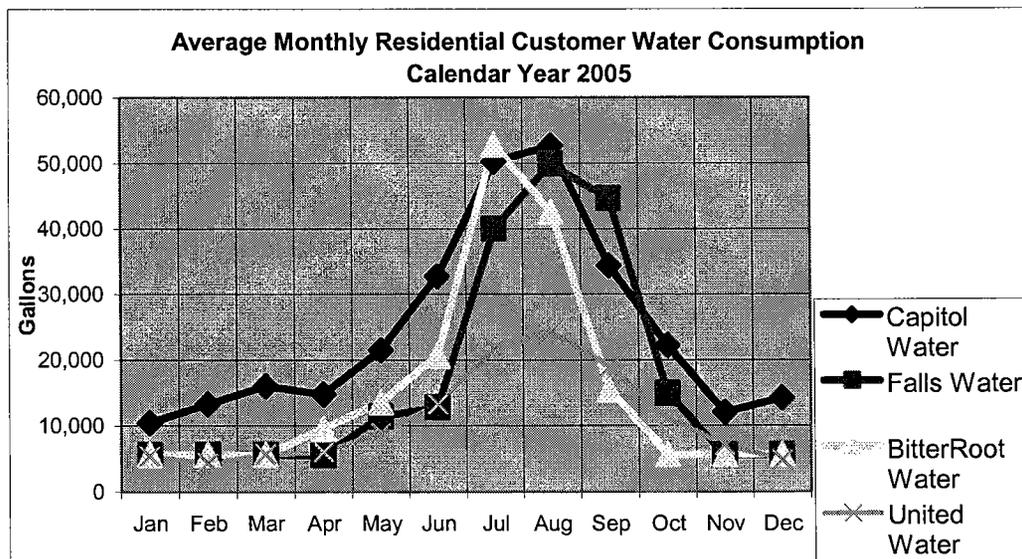
Metering

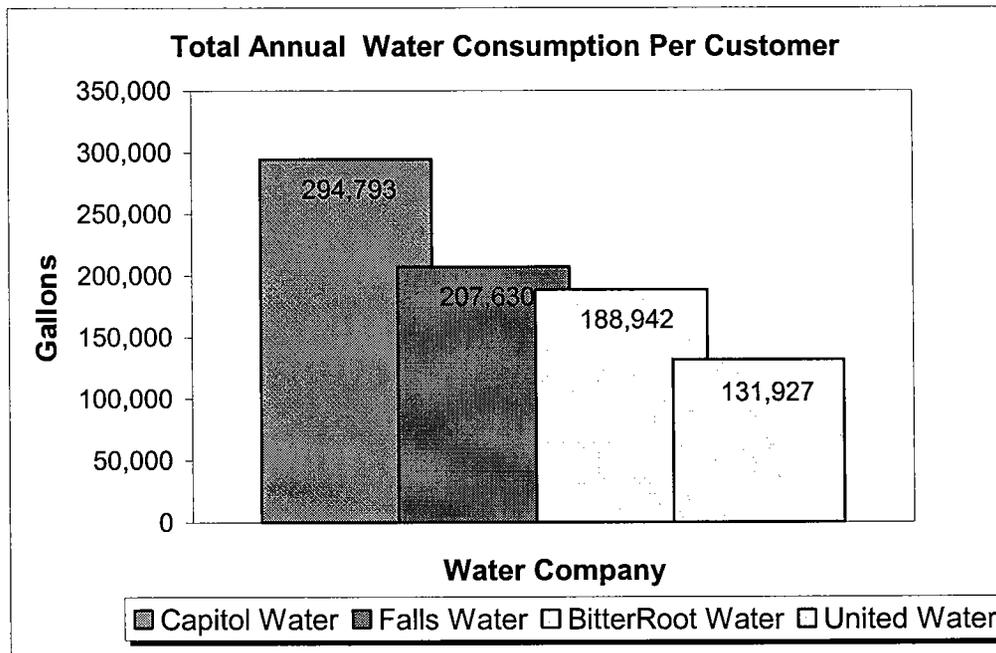
None of Capitol Water's residential customers are currently metered, and such metering was last considered in Case No. CAP-W-96-2. At that time metering was viewed as an alternate to developing new wells with the belief that metered water rates would result in reduction in consumption. In that case, other issues of water quality overshadowed the metering question and metering was judged to not be cost effective for Capitol Water's customers. An engineering

report prepared for the case by Scanlon Engineering estimated the capital costs and annual operating costs of metering the residential customers as \$1,000,000 and \$50,000 respectively in 1996 dollars.

Staff, as part of evaluating this case, again considered the possibility of metering Capitol Water’s residential customers. The key issues considered were: 1) consumption patterns, conservation and the effects of drought on the aquifer, and 2) the effect of the cost to meter on Capitol Water’s customers.

Consumption patterns of Capitol Water’s residential customers were established and compared to those of metered customers in other utilities. Falls Water was used as a comparative utility, as it is approximately the same size as Capitol Water, has a similar residential customer base, and 2005 data are available. Additionally, the consumption patterns of Bitter Root Water and United Water customers were compared using 2005 data. The results are shown below in Figures 1 and 2, entitled “Average Monthly Residential Customer Water Consumption” and “Total Annual Water Consumption Per Customer,” respectively.





The Capitol Water residential water consumption is significantly higher on an annual basis than all of the others, but is nearly identical to the most similar companies, Falls Water and Bitterroot Water, in peak consumption rates. The United Water data matches poorly due to its much higher rates and the fact that multi-family residence customers are included in United Water's data but not in the other utilities' data.

The Idaho Department of Water Resource (DWR) was contacted for information regarding Capitol Water's impact on the aquifer. DWR examined the location of Capitol Water's service area, Capitol Water's well locations and depths, and reviewed the history of the affected aquifer for any impacts. DWR concluded that the minor drawdown of that aquifer over the past few years is solely caused by the drought the surrounding area has experienced. He further noted that the aquifer dropped similarly in past droughts and recharged after the drought.

The expected costs to meter the residential customers in Capitol Water's system would be higher than in 1996 but would probably not exceed \$1,500,000. This could result in a 35% or greater impact on customers' rates.

In view of the substantial costs, the fact that water consumption by Capitol Water's customers has not been deemed as impacting the aquifer they draw on, and current capacity is adequate to meet demand, metering is not recommended at this time. If, at a later date, it is determined that the aquifer is being adversely affected, or it is determined that additional supply is needed, Staff may reconsider its metering recommendation.

Rate Design

Staff generally supports the recommendation of the Company to spread the revenue requirement increase uniformly across all rate components. However, Staff has two modifications as described in greater detail below. Staff has proposed a revenue requirement for Capitol Water of \$619,610, which is an overall rate increase of 28.47%.

Schedule 1 consists of non-metered customers, generally residential, designed as a flat rate that varies according to service size. This schedule also includes an additional monthly flat summer surcharge of \$11.07 for all customers. To meet the targeted revenue, Staff proposes that the flat charge and the summer surcharge be increased by 28.47%, resulting in an \$11.20 flat charge and a \$14.20 summer surcharge for a ¾" service. This increase maintains the current relationship between the respective charges as depicted in Attachment F, Table 1.

The Company has proposed to include the month of April in Schedule 1 summer rates. Currently, summer rates are in effect from May through September. The Company's purpose for making this proposed change is to increase annual revenues by approximately \$27,000. Staff does not recommend changing the summer rates for Capitol Water to include April for three specific reasons.

First, including April in summer rates would not be consistent with other water companies in the area. Staff reviewed the rate schedules of United Water and Eagle Water and neither company includes April in their summer rates.

Second, according to the Application, when using February as a base indicator of power use, April usage is significantly higher, indicating more water use for lawn irrigation. Upon examination, although there is a slight increase in water use in April, it is not at nearly the same level as current summer months. Staff reviewed power consumption and found that total energy use by the company in April was 17% higher than February's usage. By comparison, energy use in May was 42% higher than February's usage. This analysis of energy use is consistent with actual water use. From February to April, average gallons of water used by non-metered customers increased only 11%. From February to May, the increase was 61%.

Finally, Staff conducted an evapotranspiration analysis to examine Boise lawn water demand. Staff believes that the 2005 data is representative of typical growing conditions for Boise area lawns. This analysis shows that April water demand for a lawn is approximately 2.5 inches. The water requirement goes up to about 3 inches in May, and then for the peak irrigation months of June-August the average is over 6 inches per month.

Based on these analyses, Staff is not convinced that water use in the month of April is sufficiently high to justify including April in the summer rate. Staff recommends that the summer rates in Schedule 1 be retained as May-September.

Metered customers under Schedule 2, generally commercial and industrial, are charged a minimum monthly charge based on service size plus a declining block commodity charge. Currently, 96% of the revenue under this schedule is obtained from the commodity charge. Staff believes this amount is a sufficiently strong incentive to conserve water, therefore Staff proposes that the relationship between the base rate and the commodity rate remain unchanged and that all rates on Schedule 2 be increased by approximately 28.47%, as shown in Attachment F.

Staff's proposed rate design includes one major change, to eliminate Schedule 3, public fire hydrants, and allocate the costs to Capitol Water base rates. Currently, Schedule 3 consists of a flat rate per hydrant of \$2.34, which is currently paid by the City of Boise. There are two significant reasons for Staff's proposed change. First, Staff's proposal is reasonably consistent among Idaho water companies who collect hydrant costs from their customers. Staff was unable to find any Idaho water company that has a separate charge for public fire hydrants; other water companies generally have fire protection costs included in their rate bases. Secondly, Staff believes charging the City of Boise for fire hydrants poses an inequity to Boise citizens. Charging the City of Boise results in a subsidy to Capitol Water customers paid for by other Boise City water customers (United Water Idaho) that pay both city taxes and hydrant costs in water rates. Therefore, Staff believes that it is appropriate to integrate the fire hydrant charges into Capitol Water rates. This small increase is in addition to the proposed increase in annual revenue requirement for a total average increase of 28.47%. The only change to Schedule 4, fire protection services (such as sprinkler systems), is an average increase of 28.47% to all of the rates.

Customer Relations

A Notice to Capitol Water's customers was filed with its Application. The Notice was mailed to customers in their July billing statements in compliance with the Utility Customer Relations Rules (IDAPA 31.21.02102). A review of Capitol Water's forms, notices and billing statement show the Company complies with all the Utility Customer Relations Rules (IDAPA 31.21.01000 et seq.) and Utility Customer Information Rules (IDAPA 31.21.02000 et seq.).

The Commission has received only one complaint regarding the Company since 2001.

The complaint concerned disconnection of service for nonpayment.

On September 25, 2006, a Public Workshop was held in the Commission Hearing Room. No customers attended the workshop. The Commission has received two written comments regarding this rate case. Both were in support of the requested rate increase. One comment also expressed concern about the ACHD road widening creating a financial burden on the Company and its customers. The Staff has responded to assure the customer that those costs are not included in this request for a rate increase.

STAFF RECOMMENDATION

Staff recommendations are as follows:

1. Staff recommends increasing revenues by \$137,312 or 28.47% to recover the revenue requirement of \$619,610.
2. Staff recommends that the Company eliminate Schedule 3 (Rates for Public Fire Hydrants).
3. Staff recommends that the Company discontinue charging excess power costs (Idaho Power PCA related expenses) and the cost of purchasing sequestering chemicals (phosphates) to the Surcharge account as these expenses are built into general rates proposed by Staff.
4. Staff recommends that the Company implement the recommended changes regarding expense reimbursement for business related usage of Company vehicles.
5. Staff recommends that the current summer rate schedule be maintained and the Company not expand the schedule to include April.
6. Staff recommends that the Company file tariffs incorporating Staff's recommendations for Schedule No. 1 (Non-metered Customers), Schedule No. 2 (Metered Customers), and Schedule No. 4 (Fire Sprinkler Systems and/or Inside Hose Connections) as described in the rate design section above.
7. Staff recommends that the system not be metered at this time but that the Company continues to advise its customers of the importance of water conservation.

Respectfully submitted this 12th day of October 2006.



Cecelia A. Gassner
Deputy Attorney General

Technical Staff: Kathy Stockton
Harry Hall
Mike Darrington
Tammy Estberg

i:umisc:comments/capw06.1cgklshmdte

Capitol Water Corporation
Case No. CAP-W-06-1
Income Statement
For the Test Year 2005
Commission Staff Proposal

Line	Account	Description	Company Proposal	Total Staff Adjustments	Staff Proposal
REVENUES					
1	460	Unmetered Water Revenue	\$ 375,977	1,469	\$ 377,446
2	461.1	Metered Sales - Residential	-	-	-
3	461.2	Metered Sales - Commercial, Industrial	94,151	5,039	99,190
4	462	Fire Protection Revenue	4,788	(15)	4,773
5	464	Other Water Sales Revenue	889	-	889
6	465	Irrigation Sales Revenue	-	-	-
7	466	Sales for Resale	-	-	-
8	400	Total Revenue	<u>\$ 475,805</u>	<u>6,493</u>	<u>\$ 482,298</u>
9	Commission Approved Surcharges Collected		\$ 125,462		
EXPENSES					
10	601.1-6	Labor - Operation & Maintenance	\$ 43,661	-	\$ 43,661
11	601.8	Labor - Customer Accounts	36,591	-	36,591
12	603.8	Labor - Administrative & General	33,633	-	33,633
13	603	Salaries, Officers & Directors	52,015	-	52,015
14	604	Employee Pensions & Benefits	35,884	-	35,884
15	610	Purchased Water	-	-	-
16	615-16	Purchased Power & Fuel for Power	68,255	-	68,255
17	618	Chemicals	83	14,796	14,879
18	620.1-6	Materials & Supplies - Operation & Maint.	19,452	(3,026)	16,426
19	620.7-8	Materials & Supplies - Administrative & General	20,026	(3,350)	16,676
20	631-34	Contract Services - Professional	10,314	3,350	13,664
21	635	Contract Services - Water Testing	-	5,313	5,313
22	636	Contract Services - Other	886	-	886
23	641-42	Rentals - Property & Equipment	-	-	-
24	650	Transportation Expense	7,853	(3,145)	4,708
25	656-59	Insurance	12,673	-	12,673
26	660	Advertising	-	-	-
27	666	Rate Case Expense (Amortization)	-	-	-
28	667	Regulatory Comm. Exp. (Other except taxes)	-	-	-
29	670	Bad Debt Expense	43	-	43
30	675	Miscellaneous	9,271	815	10,086
31	Total Operating Expenses		<u>\$ 350,640</u>	<u>14,753</u>	<u>\$ 365,393</u>
32	403	Depreciation Expense	75,937	(4,085)	71,852
33	406	Amortization, Utility Plant Acquisition Adj.	-	-	-
34	407	Amortization Exp. - Other	-	-	-
35	408.10	Regulatory Fees (PUC)	1,589	-	1,589
36	408.11	Property Taxes	29,125	-	29,125
37	408.12	Payroll Taxes	12,623	-	12,623
38	408.13	Other Taxes (list) DEQ Fees	-	-	-
39		Irrigation	-	-	-
40		Vehicles	766	-85	681
41	409.10	Federal Income Taxes	-	-	-
42	409.11	State Income Taxes	20	-	20
43	410.10	Provision for Deferred Income Tax - Federal	-	-	-
44	410.11	Provision for Deferred Income Tax - State	-	-	-
45	411	Provision for Deferred Utility Income Tax Credits	-	-	-
46	412	Investment Tax Credits - Utility	-	-	-
47	Total Expenses from operations before interest		<u>\$ 470,700</u>	<u>\$ 10,583</u>	<u>\$ 481,283</u>
48	Net Operating Income		<u>\$ 5,105</u>		<u>\$ 1,015</u>
49	419	Interest & Dividend Income	-	-	-
50	Net Income Before Interest Charges		<u>\$ 5,105</u>		<u>\$ 1,015</u>
51	427.3	Interest Exp. on Long-Term Debt	5,678	-1207	4,471
52	NET INCOME		<u>\$ (573)</u>		<u>\$ (3,456)</u>

Capitol Water Co.
Case No. CAP-W-06-1
Staff Adjustments
For the Test Year 2005
Commission Staff Proposal

Income Statement Adjustments

A	3,350	Decrease Account 620.70, Customer Accounting and Collections, to reclassify an invoice to Account 632.00, Accounting Services.
B	(3,350)	Increase Account 632.00, Accounting Services to reclassify an invoice from Account 620.70, Customer Accounting and Collections.
C	(1,207)	Remove bank service fees from Account 427.60, Interest Expense - Other.
D	1,207	Increase Account 675.00, Miscellaneous Expense to include bank service fees.
E	(811)	Decrease Account 620.10, Maintenance - Source of Supply. This invoice was reclassified as an expense charged to the Surcharge account.
F	288	Include in Maintenance and Operations expense from Dues and Memberships, a below the line account, the yearly membership in the American Water Works Association.
G	(85)	Remove half of the vehicle registration fees to reflect personal use of the vehicles
H	(3,145)	Remove half of the vehicle fuel and maintenance expenses for the 2000 Suburban and the 1998 Mercury Mountaineer to reflect personal use of the vehicles
I	(4,085)	Remove depreciation expense associated with personal use of vehicle, fully depreciated at year end.
J	(392)	Remove below the line expenses from Miscellaneous expenses, account 675.
K	(2,503)	Remove actual water testing expenses and replace with annualized expenses per well of \$885.58.
L	5,313	Replace with annualized expenses per well of \$885.58
M	14,796	Add phosphate expenses to Chemicals, account 618.00
N	6,493	Increase Revenues to reflect actual usage for 2005 based on number of customers at year end.

Balance Sheet Adjustments

O	1,844	Working Capital Adjustment based on Staff's proposal
---	-------	--

Capitol Water Co.
 Case No. CAP-W-06-1
 Rate Base
 2005 Test Year
 Commission Staff Proposal

	Company Proposal	Staff Adjustment	Staff Proposal
1 Plant in Service	\$ 2,598,939		2,598,939
2 Less Accum Depr	(1,642,271)		(1,642,271)
3 Less Contributions in Aid	(150,065)		(150,065)
4 Add Accum Amort of CIAC	89,734		89,734
5 Add Working Capital	<u>43,830</u>	<u>1,844</u>	<u>45,674</u>
 6 Company Requested Rate Base	 <u>\$ 940,167</u>		
 7 Staff Proposed Rate Base			 <u>\$ 942,011</u>

Capitol Water Co.
 Case No. CAP-W-06-1
 Revenue Requirement
 For the Test Year 2005
 Commission Staff Proposal

	Company Proposal	Staff Proposal
1 Rate Base	\$ 940,167	\$ 942,011
2 Required Return on Rate Base	<u>11.48%</u>	<u>11.48%</u>
3 Required Net Operating Income	\$ 107,905	\$ 108,116
4 Net Operating Income Realized	<u>5,105</u>	<u>1,015</u>
5 Net Operating Income Deficiency	\$ 102,800	\$ 107,101
6 Net to Gross Multiplier	<u>128.84%</u>	<u>128.21%</u>
7 Gross Revenue Deficiency	\$ 132,449	\$ 137,312
8 Actual Revenue Billed - Company; Proposed Revenue - Staff	<u>\$ 475,805</u>	<u>\$ 482,298</u>
9 Revenue Increase Percentage Required	27.84%	28.47%
10 Revenue Requirement	<u>\$ 608,254</u>	<u>\$ 619,610</u>

Gross-up Factor Calculation - Company

11	Net Deficiency	100.0000%
12	PUC Fees	0.2486%
13	Bad Debts	<u>0.5000%</u>
14		99.2514%
15	State Tax @ 8%	<u>7.9401%</u>
16	Federal Taxable	91.3113%
17	Federal Tax @ 15%	<u>13.6967%</u>
18	Net After Tax	77.6146%
19	Net to Gross Multiplier	128.8417%

Gross-up Factor Calculation - Staff

20	Net Deficiency	100.0000%
21	PUC Fees	0.2486%
22	Bad Debts	<u>0.0090%</u>
23		99.7424%
24	State Tax @ 8%	<u>7.9794%</u>
25	Federal Taxable	91.7630%
26	Federal Tax @ 15%	<u>13.7644%</u>
27	Net After Tax	77.9985%
28	Net to Gross Multiplier	128.2075%

Table 1: Current and Proposed Base Rate Design

Schedule	Service Size	Current Tariff		Company Proposed Tariff		Staff Proposed Tariff	
		Flat Charge	Commodity Charge	Flat Charge	Commodity Charge	Flat Charge	Commodity Charge
Flat Rate	3/4"	\$ 8.65	N/A	\$ 10.57	N/A	\$ 11.20	N/A
	1"	\$ 10.45		\$ 12.77		\$ 13.40	
	1 1/4"	\$ 11.66		\$ 14.25		\$ 15.00	
	Additional Summer Charge May-Sep	\$ 11.07		\$ 13.53		\$ 14.20	

Schedule	Service Size	Current Tariff		Company Proposed Tariff		Staff Proposed Tariff	
		Minimum Charge	Commodity Charge	Minimum Charge	Commodity Charge	Minimum Charge	Commodity Charge
Metered	3/4" and Smaller	\$ 5.54	First 1,000: \$0.85 per 100 ft ³	\$ 6.77	First 1,000: \$1.04 per 100 ft ³	\$ 7.20	First 1,000: \$1.09 per 100 ft ³
	1"	\$ 7.70		\$ 9.51		\$ 9.90	
	1 1/2"	\$ 11.37	Second 1,000: \$0.48 per 100 ft ³	\$ 13.90	Second 1,000: \$0.59 per 100 ft ³	\$ 14.70	Second 1,000: \$0.62 per 100 ft ³
	2"	\$ 19.62		\$ 23.98		\$ 25.30	
	3"	\$ 35.20	Balance: \$0.36 per 100 ft ³	\$ 43.02	Balance: \$0.44 per 100 ft ³	\$ 45.30	Balance: \$0.46 per 100 ft ³

Schedule	Service Size	Current Tariff		Company Proposed Tariff		Staff Proposed Tariff	
		Flat Charge	Commodity Charge	Flat Charge	Commodity Charge	Flat Charge	Commodity Charge
Hydrants	Fire Hydrant	\$2.34 per Hydrant	N/A	\$2.86 per Hydrant	N/A	N/A	N/A

Schedule	Service Size	Current Tariff		Company Proposed Tariff		Staff Proposed Tariff	
		Flat Charge	Commodity Charge	Flat Charge	Commodity Charge	Flat Charge	Commodity Charge
Fire Protection	3"	\$ 6.08	N/A	\$ 7.43	N/A	\$ 8.00	N/A
	4"	\$ 8.50		\$ 10.39		\$ 11.00	
	6"	\$19.43		\$ 23.75		\$ 25.00	
	8"	\$31.56		\$ 38.57		\$ 41.00	
	10"	\$48.50		\$ 59.27		\$ 63.00	

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 12TH DAY OF OCTOBER 2006, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. CAP-W-06-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

H. ROBERT PRICE
CAPITOL WATER CORP
2626 N ELDORDO ST
BOISE ID 83704

ROBERT E SMITH
2209 N BRYSON RD
BOISE ID 83713



SECRETARY