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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF FALLS WATER COMPANY, INC. FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES.

CASE NO. FLS-W-03-1

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 Public Workshop and Hearing, Notice of Modified Procedure and Notice of Comment Deadline issued on September 22, 2003, submits the following comments.

On July 25, 2003, Falls Water Company (Falls Water; Company), an Idaho not-for-profit corporation and holder of Certificate of Public Convenience and Necessity No. 236, filed an Application with the Idaho Public Utilities Commission (Commission) requesting authority to increase its revenue requirement by $129,564 (38%). As set forth in its Application, the proposed increase reflects the increased costs of maintenance and replacement of aging infrastructure and improving its customer service response.

COMPANY'S APPLICATION

Falls Water's service territory is located east of Idaho Falls in a rapidly growing area. The Company currently has approximately 2,100 residential and commercial customers and is anticipating continued growth.[1] The Company states that its system is becoming antiquated and needs significant upgrades and repairs in the coming years. In its Application, Falls Water proposes to use 2002 as the test year to project future revenues and expenses. The Company proposes changes to the 2002 actual expenses to support the need for a significant increase in revenues. Staff has reviewed the Company's Application and found that the Company is requesting more than it originally stated. The Company is actually requesting $132,745 or 39% instead of the $129,564 stated. Staff has reviewed and summarized each adjustment to the 2002 actual expenses listed below. The Company's adjustments are found on Staff Attachment A and numbered 1-9.

Staff has performed an audit of the Company's financial books and records. Staff recommends changes to both the rate base amounts and the revenues and expenses proposed by Falls Water. Those adjustments are also listed below and are found on Staff Attachment B. Staff's recommended changes to the Company's proposed expenses are identified as A-H. Staff's recommended changes to the Company's rate base are found on Attachment C and are identified as R1-R3.

Company Adjustment (1) Field Labor

During the year 2002, Falls Water had a manager, a full-time technician and a few part-time helpers to service all 2,000 customers. To determine the proper level of service employees, the Company had a local engineering firm perform a survey of similar sized water companies and their service technicians. The survey showed the Company needed to hire an additional 1.1 to 2.1 service employees to serve the customers at the same level as the surrounding systems. During 2003, Falls Water hired one full-time service technician and is requesting the authority to hire another full-time employee. The salaries and taxes of two additional full-time employees amount to $58,777 per year.

[1] Between 2002 and 2003, the Company's customers increased from 1,960 to 2,122, an 8% increase.

Staff Expense Adjustment (A) Field Labor

At this time, Staff recommends that the Company consider more part-time help instead of another full-time service technician. The Company's engineering study recommends that the Company hire another 0.1 to 1.1 employees above the one recently hired to be consistent with companies in the same area that are about the same size. Currently Falls Water has only been operating at its current staffing level of 2 full-time technicians for a few months. Staff recommends that the Company wait and try to get by without hiring another full-time person. By utilizing part-time help, the Company can save by hiring less expensive help to assist its trained full-time staff. Staff recommends allowing the Company to recover its expenses for the newly hired full-time employee and the equivalent of one-half of an additional employee for the requested field labor increase. That would reduce the Company's request by $14,022 while still allowing an increase in field labor help.

Company Adjustment (2) Reorganization of Affiliated Companies

Falls Water is an affiliate of Howell & Howell, a holding company. Howell & Howell provides services to Falls Water including management services, office space, receptionist services, payroll services and other items. Through 2002, Howell & Howell charged Falls Water $3,000 a month for these services. While Staff had deemed that to be a reasonable amount, the Company decided to separate itself more from its parent company. To accomplish this, Falls Water broke up the management fee it was paying into specific components to allow its payments to more accurately reflect the services it received. Falls Water has reduced the overall expenses by paying actual amounts instead of the $3,000 a month. The Company has projected a savings of over $7,000 a year for customers.

Staff Expense Adjustment (B) Salaries of Officers and Directors

During its audit, Staff discovered that the management fee paid to Howell & Howell was reduced by 50% from $1,000 a month to $500 a month. This provides a savings of $6,000 a year that should be passed on to customers.

Company Adjustment (3) Employee Benefits

During 2002, Falls Water paid no health or retirement benefits for its two full-time employees. At the beginning of 2003, the Company began to pay $225 a month towards a health insurance policy for each of its full-time employees. The $10,800 requested by the Company would pay $225 a month for each of the three current employees and one additional employee requested by the Company.

Staff Expense Adjustment (C) Employee Benefits

Staff believes it is important to retain good employees and to make sure they are paid in accordance with prevailing wages and benefits. Staff recommends that the Commission allow Falls Water to continue to provide a partial payment for health insurance for employees. However, by only having three full-time employees, Falls Water does not need to provide the full health benefit to four employees. Staff reduces the amount requested by the Company for benefits to reflect three full-time employees instead of four. That results in a reduction of $2,700 per year.

Company Adjustment (4) Averaging of Expenses

The Company has taken the three-year average of several expense accounts and increased the accounts that were lower than the average up to the average amount. The averaged accounts are materials and supplies, attorney expense, testing expense, contract repairs, training and dues and publications. This results in a request of $14,351.

Staff Expense Adjustment (D) Averaging of Expenses

Staff typically does not support the selective increase in expenses resulting from the averaging of expenses because it is effectively allowing the Company to capture prior expenses and may not provide an accurate guide to future expenses. Therefore, Staff does not recommend approval of most of these expense increases requested by Falls Water. There is no evidence that the higher average number is more representative of expenses than the test year actuals. The one exception Staff recommends approval of is for water testing. Testing expenses do fluctuate year to year and the average of prior testing expenses can be a good way to approximate future average expenses. The Company's proposed average water testing expense is within the range

Staff expects it to be. Staff recommends the removal of all adjustments associated with averaging except testing expense. That results in a reduction of expenses in the amount of $13,824.

Company Adjustment (5) Reduced Expenses

In two accounts (620.82 and 636.7), the Company has reduced the amounts because it knows these expenses will be reduced in the future. The first expense reduction is due to a new bank account that does not charge fees, and the second is due to a new arrangement with the Company's billing software. Staff supports these efforts to reduce expenses to customers.

Company Adjustment (6) Engineering Expenses

During the year 2002, Falls Water hired an engineer to perform a significant study regarding its impact area and future upgrade needs. The Company has been able to secure a DEQ grant to help expand the study to the other water systems in the area. This will allow Falls Water to plan effectively for the next 20 years. Since the Company has paid most of its share of the study, engineering expense is forecasted to be reduced significantly in the next few years and Falls Water is proposing to pass those savings on to customers.

Staff Expense Adjustment (E) Engineering Expense

As noted above, the Company has begun a major project to help map out its needs and service boundaries for the next twenty years. Staff believes this is a worthwhile project that will benefit customers for many years. As a result, Staff recommends that the Company capitalize its engineering costs associated with the long-term study and other plant-related project. By capitalizing the amounts instead of expensing them, both the Company and the customers will benefit. The Company will be able to capture the benefits of the projects over the lives through a return on its investments in the projects and increased depreciation expense, and customers will not have to pay for it all at once. By capitalizing its projected engineering projects, the Company's revenue requirements are reduced. Staff calculated the difference between capitalizing projects and expensing a portion for depreciation and giving the Company a 12% return on the project as opposed to simply expensing the costs. The difference between capitalizing the $15,210 the Company proposes to spend on engineering costs and simply expensing it is $12,716.[2] Staff recommends the Company begin immediately to capitalize these items for its own benefit and the customers' benefit.

Company Adjustment (7) Actual Increases

The Company has identified four items that have already increased after 2002. These items include a new postage system, trash removal costs, the purchase of a new van and an increase in general liability insurance premiums. Staff has reviewed these items and found that these items have increased as stated by the Company. Staff recommends approval of these items.

Company Adjustment (8) Non-Utility Income and Expenses

In its last rate case, the revenues and expenses of another water system Falls Water managed under contract were removed from the Company's revenues and expenses. Falls Water is currently managing two systems – Black Hawke Estates and Andco. These systems are outside of the Company's certificated area and Falls Water does not plan to continue to manage these systems. Falls Water has removed these revenues and expenses from its request.

Staff Expense Adjustment (F) Office Expense

In addition to the items noted above, Staff found two more expense items that need to be adjusted. During 2003, Falls Water paid off the copier it purchased several years ago. Because the Company is no longer required to make monthly payments of $239.89, Staff removes $2,879 from the annual projected expenses.

Staff Expense Adjustment (G) Bad Debt Expense

During the year 2002, bad debt expense went up dramatically from prior years. This increase appears to be caused by a variety of factors including a change in billing methods for some fixed meter customers, general economic troubles, collection strategies and a price increase two years ago. During 2002, Falls Water changed the way it billed its non-metered customers. All the non-metered customers are located in two large mobile home parks. The majority of the lots in the two parks are owned by another affiliate of Falls Water. Until 2002, the owner of the

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[2] By capitalizing the $15,210, the Company will incur depreciation expense of $761 based on a twenty-year life and receive a return of $1,734. That results in an overall reduction in revenue requirement of $12,716.

lots, not the individual who lived there, paid these accounts. During 2002, the Company began billing individual renters instead of the owner of the lot. Apparently, the individual renters are less likely to pay the water bill than the owners of the lots. The Company believes this is part of the reason bad debt has increased. In addition, the Company does not actively pursue customers with outstanding balances once they move. Staff believes the Company should implement more aggressive collection practices for these customers. Finally, Staff discovered a large write off that occurred early in 2002. Typically write offs are performed at the end of the year they relate to, not the beginning of the next year. Staff has performed an analysis of bad debt expenses during the first eight months of 2003 and projects bad debt expense to be about $3,964 for 2003 instead of the $4,619 requested by the Company. Staff believes this amount is a better representation of ongoing bad debt expense instead of the amount the Company originally proposed. During the audit, the Company reviewed Staff's analysis and agreed that it would probably be more accurate than using the prior year's amount. Staff removes $656 from pro forma expenses.

Staff Expense Adjustment (H) Electricity Normalization

Due to the actual increase in customer growth since the year 2002, Staff has used 2003 customer data to spread the revenue requirement amounts instead of the 2002 customer data the Company used. Staff has also normalized the consumption data to reflect the usage of the additional customers. While this generally reduces rates by spreading fixed costs to more customers, it is reasonable to allow the Company to collect additional variable expenses associated with more usage as well. Staff has projected the Company's major variable expense, electricity, to levels consistent with the usage of the higher customer numbers. The additional expense that should be added to the Company's revenue requirement is $15,424.

COMPANY AND STAFF RATE BASE ADJUSTMENTS

Staff has also audited the Company's rate base calculations and return on rate base proposals. The Company's proposal and Staff's recommendations are listed below.

Company Adjustment (9) Return on Rate Base

In the last rate case, Falls Water was allowed to set rates based on a return on its rate base even though it is a non-profit company and cannot remove any profits. The return on rate base was to be used for system upgrades that benefit customers, not owners. Unfortunately, the Company has not earned any return for the last three years due to a variety of reasons. Staff continues to recommend that the Company be allowed to set rates based on a return of 12% on its rate base to allow for system upgrades and major maintenance items. Falls Water proposes to collect that return on rate base and use the money for system upgrades such as meter replacements. Falls Water requested $38,311 in its Attachment #5, which contains the rate requested for customers, but calculated the return to be $40,986 in its Attachment #4. Staff used the amount found in Falls Water's Attachment #4 of $40,986 as a starting point for its calculations.

Staff Rate Base Adjustments

Staff proposes three adjustments to the rate base on which the Company requests a return on. Staff uses the amount found in Attachment #4 of $40,986 as a starting point. Staff's calculations are found on Staff Attachment C. The adjustments are listed below.

Staff Rate Base Adjustment (R1) Accumulated Depreciation Adjustment

When preparing its analysis, the Company inadvertently used its 2001 accumulated depreciation balance of $293,712 instead of its higher 2002 amount. Staff used the correct amount of $316,826 to reduce rate base by another $23,114.

Staff Rate Base Adjustment (R2) Removal of Working Capital

In addition to Utility Plant in Service, Falls Water has requested to earn a return on working capital equal to 1/8 of Operating Expenses. Staff has performed a cash working capital analysis using the balance sheet method to determine who provided the working capital the Company uses. Based on that analysis, Staff has determined that the customers have supplied the working capital Falls Water uses, not the Company. Based on that analysis, Staff recommends no return on working capital.

Staff Rate Base Adjustment (R3) Contributions in Aid of Construction

In the last rate case, the Commission ordered the Company to begin booking hookup fees as Contributions in Aid of Construction (CIAC) instead of revenues. The Company began booking those fees correctly in 2002, and Staff recommends that they be used to reduce the rate base as with other regulated companies.

Staff Expense Adjustment (I) Return on Rate Base

Because Staff has calculated the rate base to be lower than the Company, Staff recommends a lower amount be recovered from customers. Staff reduces the requested $40,653 by $13,132 for a total of $27,854.

The total revenue Staff proposes to be recovered from customers is $422,698, a 24% increase in total revenue. Since the Company has a non-profit status, there is no need to gross up the revenue for income taxes.

COMPANY PROPOSED RATE DESIGN

The Company proposed the following rate design to collect the requested annual revenue requirement of $473,202:

Falls Water Rate Design as Filed								
Customer Class	No. Cust.	Flat or Base Rate	Vol. Included in Base Rate	Rate per 1000 gal Over Base	Annual Usage In Excess of Base Vol.	Total Revenue	Percent Change From Existing	Ave Annual Bill
Flat Rate Residential	574	$ 18.00	unlimited	-	-	$ 123,984	31%	$ 216.00
Multi-Family Residential	4	$ 14.50	17,000	$ 0.40	4,591	$ 2,532	-73%	$ 633.10
Metered Commercial	30	$ 14.50	17,000	$ 0.40	19,517	$ 13,027	20%	$ 434.23
Metered Residential	1352	$ 14.50	17,000	$ 0.40	234,426	$ 329,018	35%	$ 243.36
Totals	1960				258,534	$ 468,562	31%	

Staff has reviewed the Company's rate design procedures and believes several adjustments are necessary to more accurately reflect actual customer usages and impacts on the system. The following are Staff's recommended adjustments to the data used in the Company's rate design calculations.

Multi-Family Residential Rates

The Company proposes a significant change in the way multi-family facilities are charged. In the past, the owners of multi-family apartment complexes were charged the same as individual Flat Rate customers and all apartments were charged the flat rate whether they were occupied or not. The Company indicates that all apartment buildings are now metered. Therefore, the Company proposes that the owners of apartment buildings be charged a metered rate. Staff agrees with the proposal in concept but also believes the Company's application of this change is unfair. The Company indicates that there are only four (4) apartment buildings but in reality there are eleven (11) different apartment buildings (Company Response 2a). The difference between these two numbers is due to the Company proposing to bill an apartment complex composed of 8 buildings as one customer. Staff believes it is more appropriate to bill each apartment building as a separate customer because each separate building in the complex has a meter and should be charged the monthly customer charge. This adjustment treats all apartment building owners equally, whether the apartments are built as stand alone or in a complex. It also provides additional winter revenue to the Company because of additional base charges. The Company can also aggregate the bills for the complex owners to minimize mailings if that is a concern. Staff has discussed this adjustment with the Company and received no objections.

Known and Measurable Customer Changes

The Company's Application indicates there are 1,352 residential metered customers. As of September 2003, the Company reported to Staff that the actual number of metered residential customers on the system is 1,507. Staff believes it is more appropriate to use the known and measurable number of metered residential customers on the system for rate design purposes, 1,507 metered residential customers.

Volume Included in Base Rate

The Company has requested that the volume included in base rates be reduced from 20,000 gallons to 17,000 gallons. Staff has performed a bill frequency analysis and finds no noticeable changes in customer usage at 17,000 gallons that would justify this reduction. Furthermore, a reduction in base commodity appears to further penalize metered customers over

Flat Rate customers. Based on the Flat Rate customer usage considered in the 2001 rate case and on the actual 2002 usage data provided in this case, the average Flat Rate customer uses 34,460 gallons per month. This compares to the average metered residential customer usage of 25,010 gallons per month. Therefore, Staff recommends that the volume included in base rates remain unchanged at 20,000 gallons.

Actual Water Usage

The Company uses 2002 water consumption data for its rate design calculations. Staff has reviewed the water consumption for both 2002 and 2001 and found that significantly more water was used in 2001 than in 2002. Staff has not ascertained the reason for this significant change. It could be due to drought in 2001, change in customer usage due to rates, or a wet spring in 2002. Whatever the reason, Staff believes it is more appropriate to use both 2001 & 2002 usage in rate design calculations. Therefore, Staff proposes to average customer usage over the years of 2001 & 2002. Staff has also normalized the electricity expense to reflect the additional water consumption used in the rate design calculations. The electric expense adjustment is shown above as Staff Adjustment H – Electricity Normalization.

Flat Rate Customers in Metered Service Territory

In discussions with the Company, Staff discovered that there are approximately 50 customers in the metered service territory that do not have meters. Staff further discovered that these customers had meters prior to the 2001 rate case but the meters were removed in anticipation of Commission approval of a Flat Rate Tariff change. In Order No. 28907 at 6 the Commission required the retention of the Tariff Schedule R-2 (Flat Rate) eligibility requirement. This decision effectively eliminated any additional Flat Rate customers outside of the original Flat Rate customer area. It also prohibited Flat Rate service for the approximately 50 customers in the area where the Company had removed the meters.

The Company's Application accurately includes these customers in the metered customer count but it does not include any usage. Staff believes it is appropriate to impute usage at the average customer volume for these customers to more accurately reflect revenue generation potential. Staff has made this adjustment in all subsequent rate design calculations. Staff further recommends that the meters that were removed be replaced in compliance with Commission

Orders and to provide the appropriate price signal and equity among all users.

Company Proposed Rate Design With Staff Adjustments

Staff believes the aforementioned adjustments in customers and customer usage are appropriate, known and measurable for proper rate design. The following is the Company's rate design with Staff's recommended adjustments:

Falls Water Rate Design With Staff Recommended Adjustments								
Customer Class	No. Cust.	Flat or Base Rate	Vol. Included in Base Rate	Rate per 1000 gal Over Base	Annual Usage In Excess of Base Vol.	Total Revenue	Percent Change From Existing	Ave Annual Bill
Flat Rate Residential	574	$ 18.00	unlimited	-	-	$ 123,984	31%	$ 216.00
Multi-Family Residential	11	$ 14.50	20,000	$ 0.40	1,359	$ 2,458	-74%	$ 223.43
Metered Commercial	30	$ 14.50	20,000	$ 0.40	21,938	$ 13,995	29%	$ 466.51
Metered Residential	1507	$ 14.50	20,000	$ 0.40	191,529	$ 338,830	39%	$ 224.84
Totals	2122				214,826	$ 479,266	34%	

With Staff's recommended adjustments the Company's proposed base rate and commodity charge over-collects the Staff recommended revenue requirement by over $50,000. Therefore, Staff has developed the following two rate design alternatives.

STAFF PROPOSED RATE DESIGN

Staff's rate design philosophy differs slightly from the Company's. In analyzing the rate design alternatives it is apparent that the Company's rate design is based on setting the average Metered Residential and Flat Rate bills equal to each other. This is apparent on Attachment E showing a chart of the average bills. The Company's proposed rate design results in an average bill for both Flat Rate customers and Metered Residential customers of approximately $18.00 per month.

Staff believes that it is more appropriate to have similar charges for similar usage and has developed two rate designs based on both Metered Residential and Flat Rate Residential consumption averaging 34,460 gallons per month. This amount is equivalent to the actual 2002 average Flat Rate customer's usage (See Attachment G).

For ease of billing, Staff's metered rate design is the same for Metered Residential, Multi-Family Residential, and Commercial Metered service. Attachment E & F shows how the difference in average usage among these customer classes is reflected in the average and summer bills.

Staff Rate Design Option 1 – Commodity Adjustment

Staff's first rate design option is an adjustment in commodity rate only. Staff's methodology starts with all customers charged a base rate of $10.00 for the first 20,000 gallons and then adjusts the commodity charge on excess water consumption to collect the Staff recommended revenue requirement. Flat Rate customers are charged an amount equivalent to the metered commodity rate times an average excess usage of 14,460 gallons based on the 2002 average flat rate customer consumption of 34,460 gallons (See Attachment G). The following is the resulting rate design:

Staff Rate Design Option 1 - Commodity (H_2O) Only Adjustment								
Customer Class	No. Cust.	Flat or Base Rate	Vol. Included in Base Rate	Rate per 1000 gal Over Base	Annual Usage In Excess of Base Vol.	Total Revenue	Percent Change From Existing	Ave Annual Bill
Flat Rate Residential	574	$ 17.75	unlimited	-	-	$ 122,262	29%	$ 213.00
Multi-Family Residential	11	$ 10.00	20,000	$ 0.53	1,359	$ 2,040	-79%	$ 185.49
Metered Commercial	30	$ 10.00	20,000	$ 0.53	21,938	$ 15,227	41%	$ 507.57
Metered Residential	1507	$ 10.00	20,000	$ 0.53	191,529	$ 282,350	16%	$ 187.36
Totals	2122				214,826	$ 421,880	18%	

Staff Rate Design Option 2 – Base and Commodity (H_2O) Adjustment

The second rate design option considered by Staff makes adjustments to both the base charge and the commodity charge. The first rate adjustment is a 15% increase in base charges or $1.50 for a base charge of $11.50. The second adjustment is an increase in the commodity charge to collect the balance of the Staff recommended revenue requirement. Flat Rate charges are again based on the adjusted commodity rate for their average 34,460 gallons of consumption. The resulting rate design is the following:

Staff Rate Design Option 2 - Base & Commodity (H_2O) Adjustment								
Customer Class	No. Cust.	Flat or Base Rate	Vol. Included in Base Rate	Rate per 1000 gal Over Base	Annual Usage In Excess of Base Vol.	Total Revenue	Percent Change From Existing	Ave Annual Bill
Flat Rate Residential	574	$ 17.50	unlimited	-	-	$ 120,540	27%	$ 210.00
Multi-Family Residential	11	$ 11.50	20,000	$ 0.41	1,359	$ 2,075	-78%	$ 188.66
Metered Commercial	30	$ 11.50	20,000	$ 0.41	21,938	$ 13,135	21%	$ 437.82
Metered Residential	1507	$ 11.50	20,000	$ 0.41	191,529	$ 286,493	17%	$ 190.11
Totals	2122				214,826	$ 422,243	18%	

Staff Recommended Rate Design

Staff has reviewed the impacts of the various rate design options as shown on Attachment I. It is clear that the existing rates will not collect sufficient revenue for the Company. The Company's Rate design with Staff adjustments in consumption data collects revenue in excess of Staff's recommended revenue requirement. Therefore, only the two rate designs considered by Staff collect the appropriate amount of revenue.

Using the two rate design options, Staff further evaluated the impact on customers. Attachment E & F, compares customer's average bill and peak summer bills under the various rate design alternatives. From this review Staff Alternative 2 – Base and Commodity (H_2O) Adjustment appears to impact customers the least. This alternative minimizes the summer peak bill impact and only slightly increases the average bills. It also provides the Company with 15% additional winter revenue due to the base rate increase. The 15% winter increase is also approximately equal to the overall recommended change in rates. Therefore, Staff recommends approval of Staff Option 2 – Base and Commodity (H_2O) Adjustment.

CONSUMER ISSUES

Since January 1, 2000, only two customers contacted the Commission. One customer objected to the 2001 rate increase request. The other customer filed an objection to the 2003 rate increase request, saying that during an economic downturn is not the time to increase rates. Staff is not aware of any customer relation issues other than rates.

The workshop and hearing held October 8, 2003 in Idaho Falls was well publicized, but no customers attended either event and no further comments have been filed with the Commission.

The Commission, during Falls Water's last rate case, encouraged the Company to review IPUC notice requirements and fully comply with Rule 102 of the Utility Customer Information Rules (IDAPA 31.21.02000) when it filed its next application. The proposed rate increase notice sent to customers with July statements fully complies with Rule 102.

A review of Falls Water Company's other forms and notices including its billing statement, 7-day and 24-hour disconnect notices show the company goes beyond the requirements found in the Commission's Utility Customer Relations Rules (IDAPA 31.21.01000). The Company's "Spout" Information Pipeline pamphlet gives customers good information on several subjects; it includes water rates and a summary of UCRR rules as required by UCRR, Rule 701.

The Company has no active conservation program and its 574 flat rate customers have little incentive to conserve water. Staff recommends that the Company use the "Spout," a bill message, or some other method of its choosing, to give customers suggestions on water conservation and the wise use of water. Water conservation would minimize upward pressure on rates by reducing pumping costs.

As growth occurs and the Company continues to serve new subdivisions, it is reminded to file necessary amendments to its Certificate of Public Convenience and Necessity prior to serving a new addition if the area is outside of its existing certificated area.

OTHER RECOMMENDATIONS

As a result of its analysis, Staff makes the following recommendations in the areas of Contributions in Aid of Construction (CIAC) and collection practices.

Contributions in Aid of Construction

As noted earlier, the Company was ordered to start booking hookup fees to the Contributions in Aid of Construction (CIAC) account instead of to the revenue accounts. These hookup fees were to be used only for the addition of capacity or the expansion of major transmission lines. In 2002, the Company began booking these fees separately. However, Staff believes that the contributions should be further separated from revenues and tracked to assure the Commission and Staff that they are used for the purposes intended. Staff recommends that these funds be placed into a separate bank account and used only for documented upgrades for wells and major transmission lines. This will allow the Company to have some funds available when it is time for new wells or major lines to serve new customers.

Collection Practices

As noted above, the Company does not actively pursue customer collections after a customer has moved. While the outstanding amounts tend to be small, Staff recommends that the Company turn over uncollected accounts to a collection agency. This would require little effort on the part of the Company, and an agency may be able to recover at least some of the money. The Company should continue to use the Commission's rules regarding water shut offs to allow it to proactively reduce bad debt expense.

RECOMMENDATIONS

Based on the comments above, Staff submits the following recommendations:

1. The revenue requirement be set at $422,698, a 24% increase in total revenue.
2. The Commission adopt Staff Rate Design Option #2 which results in an average rate increase of 18%.
3. The Company book Contributions in Aid of Construction into a separate account and use the funds only for new sources of supply or major pipeline expansion.
4. The Company capitalize its engineering studies when appropriate.
5. The Company begin replacing the approximately 50 meters in the Henderson Trailer Park that were removed prior to the 2001 rate application.
6. The Company implement additional collection practices to reduce bad debt expense.
7. The Company provide water conservation/wise use of water information to customers.
8. The Company request amendments to its Certificate of Public Convenience and Necessity as necessary prior when providing water service to customers outside of its certificated area.

Respectfully submitted this 29th day of October 2003.

Scott Woodbury
Deputy Attorney General

Technical Staff: Alden Holm
Michael Fuss
Marge Maxwell

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Falls Water Adjustments

	2002 Actual Results	Field Labor 1	Organization Changes 2	Employee Benefits 3	Averaging Expenses 4	Reduced Expenses 5	Engineering Expenses 6	Actual Increases 7	Non Utility 8	Return Reserve 9	Falls Water Proposed
Ordinary Income/Expense											
Income											
400 · Operating Revenue											
460 · Unmetered Revenue	104,171										104,171
461.1 · Metered Residential	227,542										227,542
461.2 · Commercial Revenue	7,284										7,284
474 · Other Utility Revenue	1,460										1,460
Total 400 · Operating Revenue	340,457										340,457
Total Income	340,457										340,457
Expense											
601.5 · Labor Field	49,784	58,777									108,561
601.7 · Labor Meter Reading	5,280	348									5,628
601.8 · Labor Office	36,000		(26,700)								9,300
601.9 · Admin - Labor	52,000		2,168								54,168
603 · Salary Officers & Directors	0		13,704								13,704
604 · Employee Benefits	0			10,800							10,800
610 · Purchased Water	1,112										1,112
615 · Electrical Power	70,858										70,858
620.2 · Source M&S	4,924				2,145						7,069
620.6 · Distribution M&S	10,216				3,682						13,898
620.7 · Postage	6,372							5,628			12,000
620.8 · Office	6,539		646								7,185
620.81 · Telephone Expense	6,380										6,380
620.82 · Bank Service Charges	743					(743)					0
631.1 · Engineering	36,210						(21,000)				15,210
631.2 · Accounting	1,000										1,000
631.3 · Attorney	367				276						643
635 · Testing	5,808				527						6,335
636.2 · Source Contract Repairs	1,311				4,811						6,122
636.3 · Trash	169							21			190
636.6 · Contract Repairs	4,299				2,769						7,068
636.7 · Data Processing	11,800					(5,800)					6,000
641 · Rental of Property	1,300		3,050								4,350
642 · Rental of Equipment	3,112										3,112
650 · Transportation Expense	7,029							980			7,029
656 · Insurance Expense	3,918							493			4,898
660 · Advertising Expense	2,081										2,081
670 · Bad Debt Expense	4,619										4,619
675.1 · Training Expenses	290				100						390
675.2 · Dues & Publications	860				40						900
675.4 · IDHW Fee Expense	7,860										8,180
Total Expense	342,242	59,125	(7,132)	10,800	14,351	(6,543)	(21,000)	7,121	0		398,790
Net Ordinary Income	(1,785)										(58,333)
Other Income/Expense											
Other Income											
421 · Non-Utility Income	25,125								(17,174)		7,951
Total Other Income	25,125										7,951
Other Expense											
403 · Depreciation Expense	22,031										22,031
408 · Taxes											
408.11 · Property Taxes	3,647							972			4,619
409.11 · State Income Tax	30										30
Total 408 · Taxes	3,677										4,649
408.10 · Regulatory Fee	848										848
426 · Misc. Nonutility Expenses	18,513								(13,180)		5,334
427.3 · Interest Expense	8,023										8,515
615.1 · Electrical Power - BHE	5,927								(5,927)		0
615.2 · Andco - Electricity	657								(657)		0
620.21 · Source M&S - BHE	495								(495)		0
620.61 · Black Hawk Distr M&S	844								(844)		0
620.62 · Andco Distr M&S	0								0		0
620.811 · Telephone - BHE	320								(320)		0
635.2 · Testing - Andco	15								(15)		0
Total Other Expense	61,350								(21,438)		41,377
Net Other Income	(36,225)										(33,426)
Net Income	(38,010)							Adjusted Loss			(91,759)
							Return on Assets			40,986	40,986
							Total Increase Requested				132,745
							Total Revenue Requested				473,202
							Percentage				39%
					Attachment A						
					Page One of One						

Attachment A
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Staff Adjustments

	Falls Water Proposed	Field Labor A	Management Fee B	Employee Benefits C	Averaging Expenses D	Engineering Expenses E	Office Expenses F	Bad Debt G	Electricity Normalization H	Return Reserve I	Total Staff Proposed
Ordinary Income/Expense											
Income											
400 · Operating Revenue											
460 · Unmetered Revenue	104,171										104,171
461.1 · Metered Residential	227,542										227,542
461.2 · Commercial Revenue	7,284										7,284
474 · Other Utility Revenue	1,460										1,460
Total 400 · Operating Revenue	340,457										340,457
Total Income	340,457										340,457
Expense											
601.5 · Labor Field	108,561	(14,022)									94,539
601.7 · Labor Meter Reading	5,628										5,628
601.8 · Labor Office	9,300										9,300
601.9 · Admin - Labor	54,168										54,168
603 - Salary Officers & Directors	13,704		(6,000)								7,704
604 - Employee Benefits	10,800			(2,700)							8,100
610 · Purchased Water	1,112										1,112
615 · Electrical Power	70,858								15,424		86,282
620.2 · Source M&S	7,069				(2,145)						4,924
620.6 · Distribution M&S	13,898				(3,682)						10,216
620.7 · Postage	12,000										12,000
620.8 · Office	7,185						(2,879)				4,306
620.81 · Telephone Expense	6,380										6,380
620.82 · Bank Service Charges	0										0
631.1 · Engineering	15,210					(12,716)					2,494
631.2 · Accounting	1,000										1,000
631.3 · Attorney	643				(276)						367
635 · Testing	6,335										6,335
636.2 · Source Contract Repairs	6,122				(4,811)						1,311
636.3 · Trash	190										190
636.6 · Contract Repairs	7,068				(2,769)						4,299
636.7 · Data Processing	6,000										6,000
641 · Rental of Property	4,350										4,350
642 · Rental of Equipment	3,112										3,112
650 · Transportation Expense	7,029										7,029
656 · Insurance Expense	4,898										4,898
660 · Advertising Expense	2,081										2,081
670 · Bad Debt Expense	4,619							(656)			3,964
675.1 · Training Expenses	390				(100)						290
675.2 · Dues & Publications	900				(40)						860
675.4 · IDHW Fee Expense	8,180										8,180
Total Expense	398,790	(14,022)	(6,000)	(2,700)	(13,824)	(12,716)	(2,879)	(656)	15,424	0	361,418
Net Ordinary Income	(58,333)										(20,961)
Other Income/Expense											
Other Income											
421 · Non-Utility Income	7,951										7,951
Total Other Income	7,951										7,951
Other Expense											
403 · Depreciation Expense	22,031										22,031
408 · Taxes											0
408.11 · Property Taxes	4,619										4,619
409.11 · State Income Tax	30										30
Total 408 · Taxes	4,649										4,649
408.10 · Regulatory Fee	848										848
426 · Misc. Nonutility Expenses	5,334										5,334
427.3 · Interest Expense	8,515										8,515
615.1 · Electrical Power - BHE	0										0
615.2 · Andco - Electricity	0										0
620.21 · Source M&S - BHE	0										0
620.61 · Black Hawk Distr M&S	0										0
620.62 · Andco Distr M&S	0										0
620.811 · Telephone - BHE	0										0
635.2 · Testing - Andco	0										0
Total Other Expense	41,377										41,377
Net Other Income	(33,426)										(33,426)
Net Income	(91,759)										(54,387)
						Return on Assets Requested		40,986		(13,132)	27,854
						Total Increase Recommended					82,241
						Total Revenue Recommended					422,698
						Percentage Increase Recommended					24%

Attachment B
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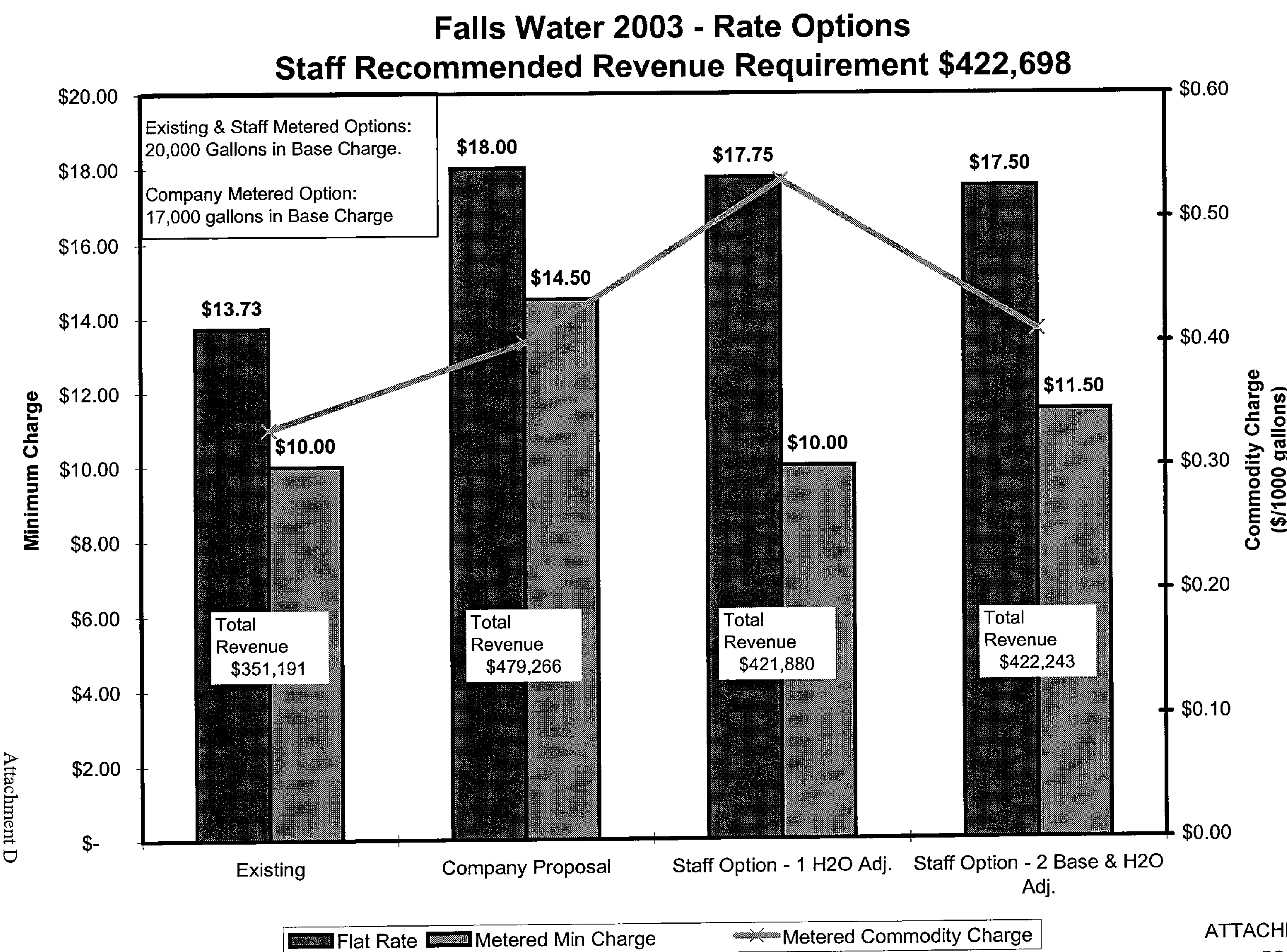
Attachment B
Case No. FLS-W-03-1
Staff Comments
10/29/03

	Falls Water Company	
	Rate Base Analysis	
	Company Proposed	
	Utility Plant in Service	592,484
R1	(Accumulated Depreciation)	(293,712)
R2	Working Capital	42,780
	Total Rate Base	341,553
	Return at 12%	40,986
	Staff Proposed	
	Utility Plant in Service	592,484
R1	Accumulated Depreciation	(316,826)
R3	CIAC	(43,542)
	Total Rate Base	232,116
	Return at 12%	27,854
	Difference	13,132
	Staff Attachment C	
	Page One of One	

Attachment C
Case No. FLS-W-03-1
Staff Comments
10/29/03

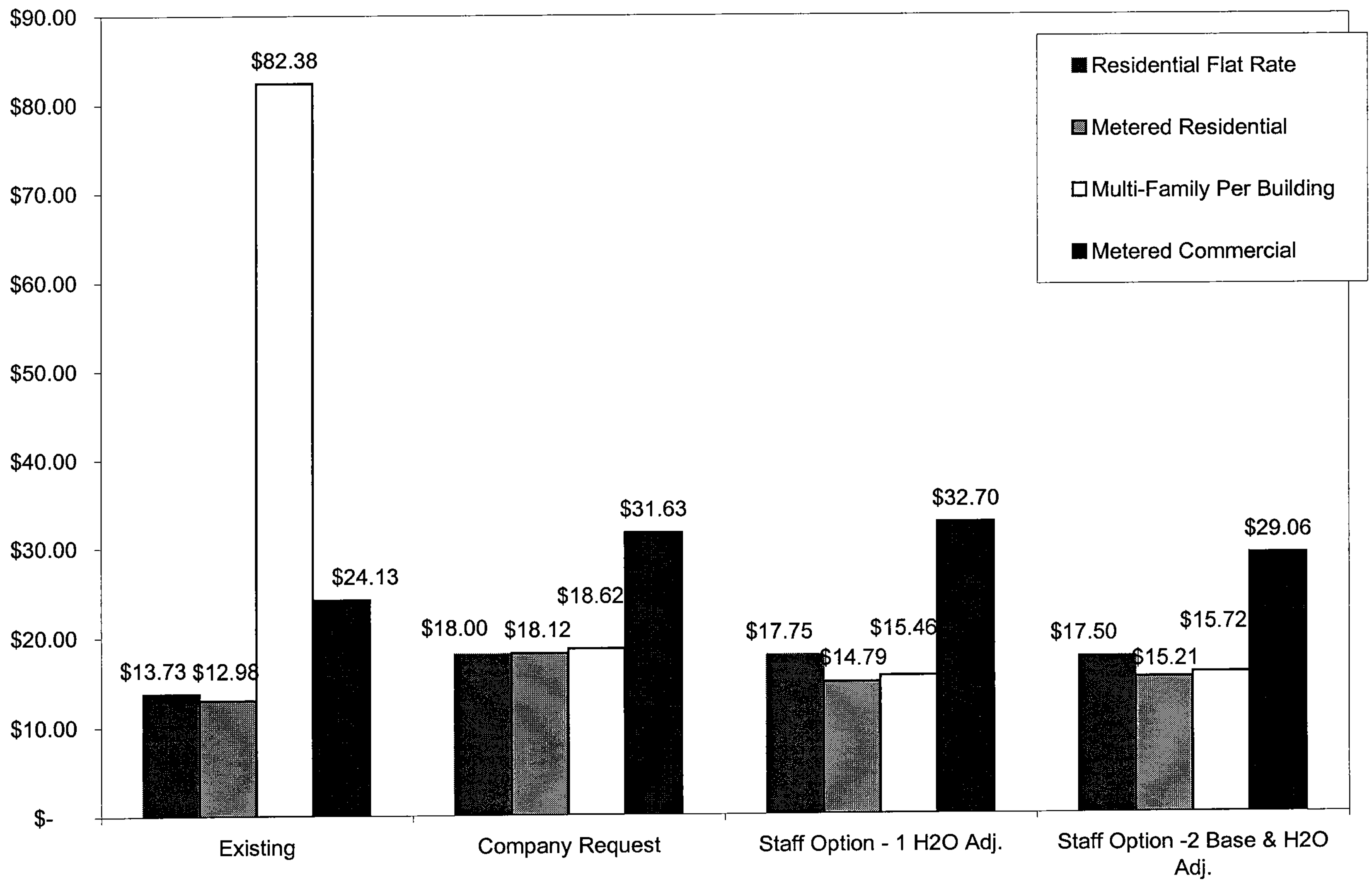


REV Calc 2003 01 - Sumcht02

ATTACHMENT D
page 1 of 1

Attachment D
Case No. FLS-W-03-1
Staff Comments
10/29/03

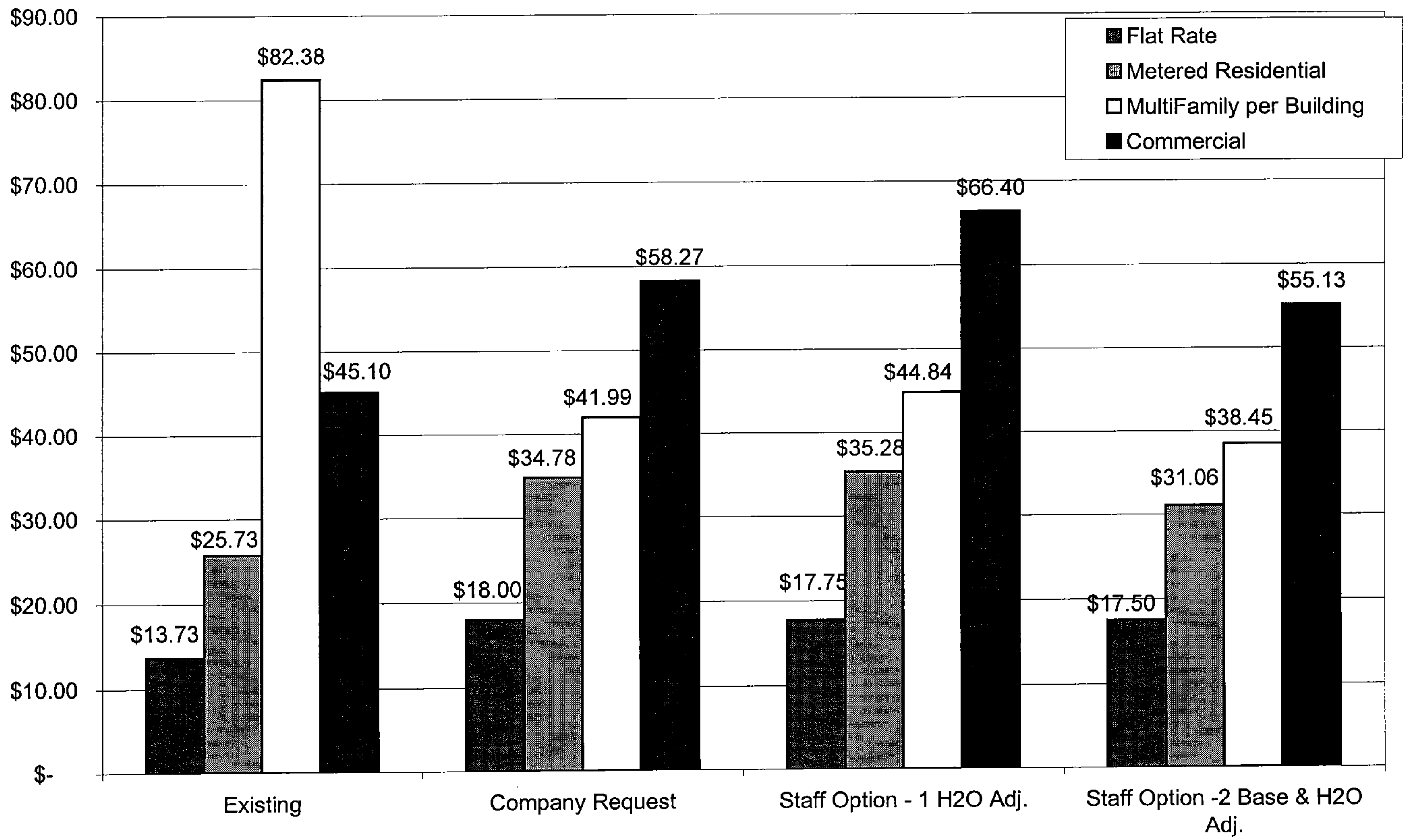
Average Bills
Falls Water 2003



REV Calc 2003 01 - ave bill

Attachment E
Case No. FLS-W-03-1
Staff Comments
10/29/03

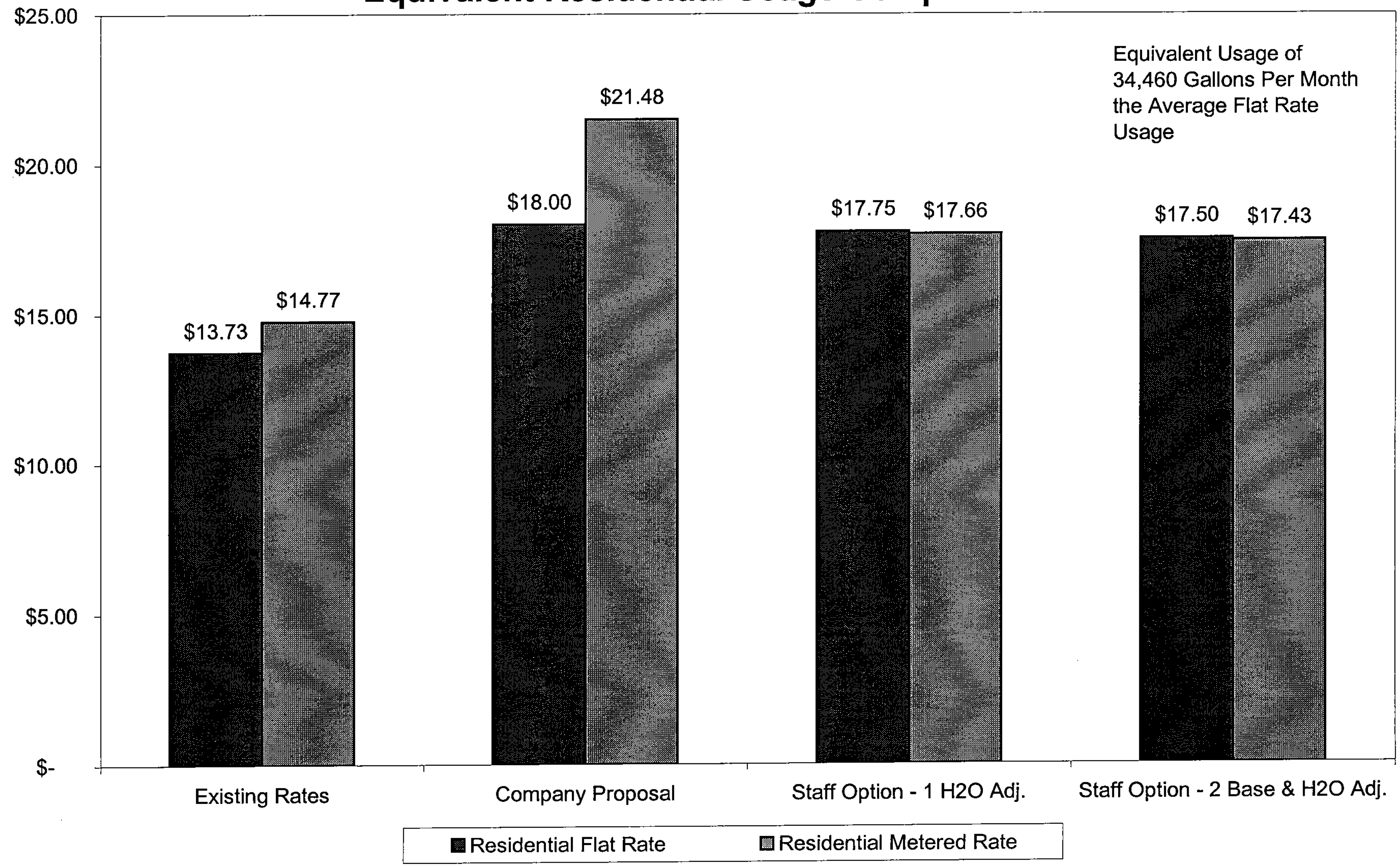
Falls Water 2003
Summer Rate (July) Analysis



Attachment F
Case No. FLS-W-03-1
Staff Comments
10/29/03

REV Calc 2003 01 - sum rate

Falls Water 2003
Equivalent Residential Usage Comparison



Attachment G
Case No. FLS-W-03-1
Staff Comments
10/29/03

REV Calc 2003 01 - flatmeter

ATTACHMENT G
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 29TH DAY OF OCTOBER 2003, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. FLS-W-03-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

K. SCOTT BRUCE
MANAGER
FALLS WATER COMPANY INC
2025 E FIRST STREET
IDAHO FALLS ID 83401-4411

Mary Jo Nelson
SECRETARY