



FALLS WATER COMPANY

1770 Sabin Dr, Idaho Falls, Idaho 83406-6747
Website: www.fallswater.com

Tel.: (208) 522-1300
Fax: (208) 522-4099

March 23, 2006

Idaho Public Utilities Commission
472 West Washington Street
PO Box 83720
Boise, Idaho 83720-0074

Attached are seven (7) copies of the rebuttal comments for case no. FLS-W-05-1. Also enclosed is a 3.5" disk with a pdf file of the rebuttal comments.

If you need anything else, please, let me know what you need.

Thank you,

K. Scott Bruce
Manager
Falls Water Company, Inc.

Enclosures

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Idaho Public Utilities Commission

K. Scott Bruce
 Falls Water Company, Inc.
 1770 Sabin Dr
 Idaho Falls, ID 83406
 Tel. (208) 522-1300
 Fax (208) 522-4099
 E-mail: scott@fallswater.com
 Representative for Falls Water Company, Inc.

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 IDAHO PUBLIC UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF FALLS WATER COMPANY, INC. FOR)	CASE NO. FLS-W-05-1
AUTHORITY TO INCREASE ITS RATES)	
AND CHARGES)	
)	REBUTTAL COMMENTS
)	OF FALLS WATER COMPANY,
)	INC.

Falls Water Company, Inc., in response to the Comments of the Commission Staff issued March 3, 2006, submits the following comments.

COMPANY COMMENTS

ACCOUNTING ISSUES

OPERATING REVENUES

Company accepts staff's adjustments to normalize revenues.

OPERATING EXPENSES

Company accepts staff adjustment A – Expenses, Regulatory & Bad Debt Expense – Staff Adjustment E, Ammortization Expense and Interest Expense – Staff Adjustment G, and Income Tax Expense – Staff Adjustment H.

Company Adjustment 1 – Meter Reader Labor Expense

Company accepts the staff's Employee Labor and Benefits - Staff Adjustment B with the following exception to the labor meter reading expense. The adjustment made by staff calculates that the meter reading labor takes only 20 hours each month to complete during the seven months that meters are read. The meter reading labor hours were 20 hours each month in the year 2000. Approximately 1,200 meters have been added to the meter reading route since July 2000. The current number of meters read each month starting April 2006 will be 2311. Additional meters will be added as new construction customers come on to the system. Another addition to meters read by the meter reader will be the conversion of the unmetered flat rate customers to metered. With the current number of meters in the water system, the meter reader will work 44 hours each month to complete the reading of the system. At the staff's proposed rate of \$18.79 per hour the labor meter reading expense

should be \$5,787.32 plus 18.24% for employer payroll expenses (ie. Workers Compensation Insurance, FICA, FUTA, State Unemployment Insurance, etc.) for a total labor meter reading expense of \$6,842.92. This adds \$3,732.50 back to staff proposed yearly labor meter reading expense of \$3,110.42.

Company Adjustment 2 – Office and Phone Expenses

Telephone Expense – Staff Adjustment C proposed to remove \$1,200.00 from the telephone expense for cell phones used by the part time meter reader and the office receptionist. The company can accept that the expense for the two cell phones should not be paid by the customers. However, the company disagrees with the amount that is being deducted. The expense to the company for the two phones is not \$50.00 per phone per month as the staff adjustment indicates.

The rate structure for the billing for the company cell phones has two plans with three phones per plan. The first phone on each plan is \$131.70 and \$116.85 respectively. The second phone per plan is \$28.44 and \$27.44 respectively. The third phone is \$6.41 per plan. The company contends that the adjustment for cell phones should be \$6.41 per phone per month or \$153.84 annually instead of the \$1,200.00 annual adjustment made by staff. The company proposes that \$1,046.16 be added back to the telephone expense for a total annual telephone expense of \$10,965.00.

In staff comments page 21 paragraph 3, it is recommended that the company provide water conservation information to the customers. To provide a billing stuffer for conservation to the customers, the company asks that the office expense be adjusted to allow for the printing and handling of the bill stuffer by the company's third party billing preparer. The cost to print and stuff the conservation billing stuffer is \$0.225 each. The total cost to send the conservation billing stuffer to 2,908 customers, the total number of customer at the end of 2005, is \$654.30. The original rate case application did not include this expense.

Company Adjustment 3 – Transportation and Training Expenses

Company requests adjustments to Transportation Expense – Staff Adjustment D to include the current cost of fuel in the transportation calculation. Company recognizes that fuel costs have decreased from the costs used when calculating annual gasoline costs at the time it prepared the rate case application in late October 2005. Staff's price for regular grade gasoline of \$2.269 may have been reflective of the retail price in late February 2006. However, the retail gasoline price for the Rocky Mountain Region as of March 20, 2006 is \$2.395 per gallon of regular grade gasoline. This price was taken from the Energy Information Administration website: http://www.eia.doe.gov/oil_gas/petroleum/data_publications/wrgp/printer_friendly_version.html Company recognizes that prices for gasoline are not stable and will continue to fluctuate. However, company requests that the best known and reasonable pricing be used for this expense item. The company adjustment for the price of gasoline will increase the transportation expense by \$1,032.38 over the staff's proposal for the transportation expense.

Company requests adjustments to Training Expense – Staff Adjustment F. Company seeks to reclassify costs removed from transportation expense for travel and lodging pertaining to employee training in the amount of \$954.50. Company has over the past two years sought to give more training opportunities to its employees. The addition of a new full-time employee in 2004 and the addition of another full-time employee and a part-time employee in 2005 have effectively doubled our work force during that time. The company wishes to continue to provide effective and beneficial training for its employees. Many of the classes and seminars to which our employees go are local; however, not all of the training needs are fulfilled in the Eastern Idaho area. The needed training will sometimes

require that an employee travel outside our area for that training. Company feels that it is appropriate to train its employees well and well-trained employees benefit the customer. As the number of employees has increased, the expenditure necessary to properly train our employees has risen.

Company requested adjustments to Staff's comments would result in an increase to revenues of \$72,728.00 or 12.83% (See Attachment A).

ENGINEERING ISSUES

Metering of Unmetered Customers

Company agrees with Staff that the unmetered customers have a very high water usage rates. The high usage rate is attributable to plumbing fixture leaks that go unrepaired, excessive sprinkling of lawns and landscaping, and customers leaving water running during the winter to prevent frozen pipes. Another hidden water use would be water main and service line leaks that are unknown and the water usage from such leaks is calculated as part of the unmetered customers usage. The efficient utilization of existing water rights can postpone the need to purchase additional water rights.

Staff comments suggest that the Company is seeking to initiate a program to replace 5% of its meters each year. The Company has been replacing 5% of its meters for the past four years. The Company's proposal in the original rate case application (found on page 4 paragraph 2) sought to use the meters from its replacement program to meter the unmetered customers over a six-year period. The Company did not propose a separate meter installation budget item in addition to its current meter replacement plan in order to meter unmetered customers in the system. The Company is not financially able to meet the Staff's proposed plan to meter all unmetered customers within three years. Currently, the Company has committed the Contributions-in-Aid of Construction funds in its Capital Improvements Fund for a new well to be constructed during the next 14 months.

The Company proposes that the Commission either allow the Company to meter unmetered customers within six years as originally proposed, or if the metering of unmetered customers is to be done within three years the Company proposes that a surcharge be granted to finance the project within the three years proposed by Staff. The amount of the surcharge would be \$0.96 per customer per month for 36 months. The surcharge amount is derived as follows:

Total Meters required	585
Meters from Company's meter replacement program	348
Additional new meters to be purchased	237
Cost of 237 new meters @ \$155.40	\$ 36,829.80
Installation for 472 residences with correct meter barrel	\$ 16,359.52
Cost of installation for 89 residences with no meter barrel	\$ 47,615.88
Cost of installation for 24 residences with wrong meter barrel	\$ 14,786.18
Cost of 348 meters from company meter replacement program	<u>\$ 54,079.20</u>
Total Cost of meter installation project	\$169,670.58
Less: Cost of 348 meters from meter replacement program	(\$54,079.20)
Cost of labor to install 585 meters	<u>(\$14,625.00)</u>
Total incremental cost for surcharge	\$100,966.38
Total customers December 31, 2005	2,908
Per customer portion of incremental cost	34.72
Monthly per customer surcharge for 36 months	0.96

Company agrees with Staff that a 3-year installation program would bring about the conservation benefits of this program in a timely manner. However, the Company is unable to implement a 3-year conversion program for unmetered customers without additional financing in the form of the proposed surcharge.

Tariff

The Company adjusted the Staff's proposed tariff schedules to meet the Company's recommended revenue requirement of \$639,756.00 as shown in the table below:

SCHEDULE	CURRENT TARIFF		STAFF PROPOSED TARIFF		REVISED COMPANY PROPOSED TARIFF	
	Minimum Charge	Commodity Charge	Minimum Charge	Commodity Charge	Minimum Charge	Commodity Charge
R-1	\$11.50	\$0.41 per 1,000 gallons over 20,000	\$11.50	\$0.45 per 1,000 gallons over 12,000	\$11.58	\$0.46 per 1,000 gallons over 12,000
R-2	\$17.50	N/A	\$19.60	N/A	\$19.60	N/A
R-3	\$11.50	\$0.41 per 1,000 gallons over 20,000	\$11.50	\$0.45 per 1,000 gallons over 12,000	\$11.58	\$0.46 per 1,000 gallons over 12,000
C-2	\$11.50	\$0.41 per 1,000 gallons over 20,000	\$11.50	\$0.45 per 1,000 gallons over 12,000	\$11.58	\$0.46 per 1,000 gallons over 12,000

The following table shows the resulting annual average bill for each customer class under the Company revised rate proposal as compared to the present bill and to the Staff's proposed rate.

Schedule	Present Average Annual Bill (Adjusted)	Annual Average Bill with Staff Proposed Tariff	Percent Change from Present	Annual Average Bill with Revised Company Proposed Tariff	Percent Change from Present
R-1, Metered Residential	\$202.92	\$209.25	3.12%	\$211.79	4.4%
R-2, Flat Rate Residential	\$210.00	\$235.20	12%	\$235.20	12%
R-3, Multi-Family	\$208.88	\$215.79	3.3%	\$218.48	4.6%
C-2, Commercial	\$388.22	\$412.63	6.3%	\$419.69	8.1%

Other Staff Engineering Comments

Company accepts Staff's change in minimum charge water allowance from 20,000 gallons per month to 12,000 gallons per month. Company also recognizes the importance of the Staff recommendation to better utilize the SCADA system to gather well production information. We are prepared to implement this change.

CUSTOMER RELATIONS

Company is satisfied with Staff comments regarding customer relations.

SUMMARY OF RECOMMENDATIONS

Company recommendations are as follows:

1. Change tariffs as shown below to reflect an increase to revenues of \$72,728.00 or 12.83%.
2. Accept Staff recommendation for Company to provide water conservation/wise water use information to customers.
3. Accept Staff recommendation to implement the proposed \$15 field collection charge and file a revised tariff that describes when the charge will apply.
4. Either allow the Company to convert unmetered customer to metered in six years as Company originally proposed, or implement a \$0.96 per customer per month surcharge for 36 months during which time the Company will convert unmetered customers to metered.
5. Accept Staff recommendation to enhance existing SCADA software to implement better record keeping, especially for well production.
6. Accept Staff recommendation to require Company to provide previously unmetered customers with weatherization information to minimize frozen pipe problems at the time of conversion to metered status.
7. File tariffs as described below.

Schedule	Minimum Charge, \$	Commodity Charge, Each 1,000 Gallons over 12,000
R-1, Metered Residential	\$11.58	\$0.46
R-2, Flat Rate Residential	\$19.60	N/A
R-3, Multi-Family	\$11.58	\$0.46
C-2, Commercial	\$11.58	\$0.46

Respectfully submitted this 23rd day of March 2006.



K. Scott Bruce
Manager

Company Comments
Falls Water Company, Inc.
 General Rate Case
 Fls-W-05-1

	Total Staff Proposed	Corrected Labor & Benefits 1	Corrected Phone & Office Expense Adj. 2	Corrected Transport & Training Exp 3	Total Co. Adjustments to Staff 4	Total Company Proposed
Ordinary Income/Expense						
Income						
400 · Operating Revenue						
460 · Unmetered Revenue	124,145				-	124,14
461.1 · Metered Residential	427,188				-	427,18
461.2 · Commercial Revenue	15,058				-	15,05
474 · Other Utility Revenue	637				-	63
Total 400 · Operating Revenue	567,028				-	567,02
Total Income	567,028				-	567,02
Expense						
601.5 · Labor Field	130,561				-	130,56
601.7 · Labor Meter Reading	3,110	3,733			3,733	6,84
601.8 · Labor Office	42,777				-	42,77
601.9 · Admin - Labor	62,368				-	62,36
603 · Salary Officers & Directors	7,704				-	7,70
604 · Employee Benefits	23,255				-	23,25
610 · Purchased Water	1,112				-	1,11
615 · Electrical Power	102,919				-	102,91
618 · Chemicals	2,952				-	2,95
620.2 · Source M&S	4,091				-	4,09
620.6 · Distribution M&S	24,496				-	24,49
620.7 · Postage	11,872				-	11,87
620.8 · Office	11,744				654	12,39
620.81 · Telephone Expense	9,919				1,046	10,96
620.82 · Bank Service Charges	762				-	76
620.83 · Office Utilities Expense	1,966				-	1,96
631.1 · Engineering	3,715				-	3,71
631.2 · Accounting	1,893				-	1,89
631.3 · Attorney	4,406				-	4,40
635 · Testing	3,410				-	3,41
636.2 · Source Contract Repairs	3,395				-	3,39
636.3 · Trash	198				-	19
636.6 · Distribution Contract Repairs	10,906				-	10,90
636.7 · Data Processing	3,078				-	3,07
641 · Rental of Property	11,868				-	11,86
642 · Rental of Equipment	6,845				-	6,84
650 · Transportation Expense	18,529			1,032	1,032	19,56
656 · Insurance Expense	9,468				-	9,46
660 · Advertising Expense	2,054				-	2,05
670 · Bad Debt Expense	5,926				-	5,92
675.1 · Training Expenses	900				955	1,85
675.2 · Dues & Publications	870				-	87
675.4 · IDHW Fee Expense	10,988				-	10,98
675.9 · Uncategorized Expenses	100				-	10
Total Expense	540,160	3,733	1,700	1,987	7,420	547,57
Net Ordinary Income	26,869					19,44
Other Income/Expense						
Other Income						
421 · Non-Utility Income	8,626				-	8,62
Total Other Income	8,626				-	8,62
Other Expense						
403 · Depreciation Expense	44,015				-	44,01
407 · Amortization Expense - Other	0				-	-
408.10 · Regulatory Fee	1,453				-	1,45
426 · Misc. Non-Utility Expenses	1,471				-	1,47
427.3 · Interest Expense	0				-	-
Total Other Expense	46,940				-	46,94
Net Other Income	(38,314)				-	(38,31)
Net Income Before Taxes	(11,446)				-	(11,44)
408 · Taxes						
408.11 · Property Taxes	4,129				-	4,12
409.10 · Fed Income Tax	(2,149)				-	(2,14)
409.11 · State Income Tax	(1,246)				-	(1,24)
Total 408 · Taxes	734				-	73
Net Income After Taxes	(12,179)				-	(12,17)

STAFF

Staff Return on Rate Base Recommended	36,535
Overall Return on Rate Base	6.3%
Staff Revenue Deficiency	48,714
Net to Gross Multiplier	1.2956
Staff Total Increase Recommended	63,114
Staff Total Revenue Recommended	630,142

COMPANY

Return on Rate Base Requested	36,53
Return on Rate Base %	6.3%
Company Revenue Deficiency	56,13
Net to Gross Multiplier	1.295
Total Increase Requested	72,72
Total Revenue Requested	639,75