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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-05-1**
	COMMENTS OF THE COMMISSION STAFF

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Public Workshop and Hearing, Notice of Modified Procedure and Notice of Comment Deadline issued on December 28, 2005, submits the following comments.

BACKGROUND

On November 4, 2005, Falls Water Company, Inc. (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 $258,363 (48.2%). The Company also submitted proposed changes in base rates and commodity charges for water service. As set forth in its Application, the proposed increase reflects the increased costs of operations and maintenance and replacement of aging infrastructure. The last general rate increase for Falls Water was authorized by Commission Order No. 29397 in Case No. FLS-W-03-1.

If the proposed changes in rates are approved, the average annual rates for metered residential customers will increase from $179.49 to $295.55, an increase of $116.06 or 64.7%. The average annual rates for metered commercial customers would increase from $323.46 to $569.75, an increase of $246.29 or 76.1%. Annual rates for non-metered residential customers would increase from $210 to $231, an increase of $21.00 or 10%. Annual rates for multi-family residential customers would increase from $181.64 to $344.82, an increase of $163.18 or 89.8%.

On November 28, 2005, the Commission issued Notices of Application and Intervention Deadline in Case No. FLS-W-05-1. The deadline for filing interventions was Friday, December 23, 2005. No party requested intervention. The Company requests an effective date for its revenue increase of April 15, 2006.

STAFF COMMENTS

ACCOUNTING ISSUES

OPERATING REVENUES

The operating revenues for Falls Water are being properly billed 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.

The major source of revenue for Falls Water is the sale of water to residential, commercial and industrial customers. There is also revenue from hook-up fees. In 2005, actual operating revenues totaled $535,964.

Staff proposes adjustments to the Company requested test year revenues, expenses, rate base, capital structure and overall rate of return. Staff's adjustments and recommendations are summarized on Staff Attachment A.

Staff Adjustment A - Revenues

The 2005 test year was cooler and wetter than the previous five years used by the Company to calculate electric power use. As a result, the average power cost per customer in 2005 was lower than any of the previous 5 years. Staff has reviewed the Company's analysis of power costs and water consumption for those 5 years and agrees with the Company's use of the 5-year averages to estimate normalized test year power costs. The adjustment to power expenses will be discussed later in the Operating Expense section of the comments.

By normalizing pumping power expenses on a per customer basis using the previous five-year average, the Company recognized that pumping costs in the test year were below normal. Staff agrees. However, if pumping power costs were below normal, total water pumped and per customer consumption was also below normal. Therefore, Staff has adjusted test year consumption using the same five-year average methodology used by the Company to adjust pumping power expenses.

The analysis shows that consumption in the test year on a per customer basis was approximately 15.5% lower than the previous five-year average. Applying the increase to the various customer classes results in a 75.8 million gallon increase in test year metered consumption. This additional commodity generates an additional $31,063 in test year revenue at current commodity rates. The following table shows the derivation of the test year revenue adjustment.

CUSTOMER CLASS	TEST YEAR CONSUMPTION GALLONS	ADJUSTED CONSUMPTION GALLONS	INCREMENTAL CONSUMPTION GALLONS	ADDITIONAL COMMODITY BASED REVENUE
R-1 Metered Residential	452,633,000	522,791,000	70,158,000	$28,764.80
R-3 Metered Multi-Family	12,151,000	14,034,000	1,883,000	$ 772.03
C-2 Commercial	24,017,000	27,739,600	3,722,600	$ 1,526.27
			Total	$31,063.10

OPERATING EXPENSES

Operating expenses have continued to climb with revenues and the cost of additional services. In 2005, reported expenses were $473,776. In the Application, the Company has made adjustments to expenses totaling $185,239. The Company makes adjustments for operational and maintenance expenses, proposes a new amortization expense to recover past expenses, and makes adjustments to interest expense, and income tax expense.

Staff proposes adjustments to the Company's proposed expenses. Staff has adjustments to employee labor and benefits, electrical power, telephone expense, transportation expense, regulatory and bad debt expense, training expense, interest expense, and state and federal income tax expense as well as the complete removal of the amortization expense proposed by the Company.

Accepted Company Adjustments

The Company proposes adjustments to chemicals expense, postage expense, general office expense, bank service charges, office utilities expense, data processing expense, rental of property expense, rental of equipment expense, and Idaho Department of Health & Welfare Fee expense (DEQ expenses). These adjustments total $3,804.90. Staff has examined these expenses and finds the Company's adjustments to be reasonable. Staff accepts these Company adjustments as proposed.

Staff Adjustment A - Expenses

The Company has proposed to increase test year pumping power expenses by $21,135 based upon the average pumping power costs over the previous five-year period to reflect the fact that 2005 was cooler and wetter than normal. The proposed adjustment is based on a per customer annual expense of $34.80 per customer, adjusted for a known and measurable increase in the power rate, applied to a customer base of 2,820 customers. Staff does not oppose this adjustment. However, Staff has used a more current customer total of 2,908 to make its associated test year consumption and revenue adjustment. Therefore, Staff recommends that test year pumping power expenses be increased by an additional $3,110 to reflect the higher customer totals. The following table shows the derivation of the five-year power cost per customer.

YEAR	NO. CUSTOMERS AT YEARS END	ANNUAL POWER COSTS	POWER COST PER CUSTOMER	ANNUAL WATER CONSUMPTION, GALLONS X 1,000	ANNUAL WATER CONSUMPTION PER CUSTOMER, GALLONS
2000	1,942	$59,062	$30.41	656,477	338,042
2001	1,967	$71,954	$36.58	775,263	394,135
2002	2,006	$68,472	$34.13	740,884	369,334
2003	2,196	$90,637	$41.27	928,791	422,947
2004	2,464	$77,882	$31.61	789,561	320,439
		5-Year Average	$34.80	N/A	368,979

Employee Labor And Benefits – Staff Adjustment B

The largest adjustment in O&M expenses reflects an increase in employee payroll and benefits costs. The Company proposes to include known and measurable increases to employee payroll and benefits. In 2006, the Company granted employees increases in pay, began offering a

retirement plan, and experienced an increase in health benefits. The Company proposes increases to labor and benefits from the test year levels totaling $68,065. These expenses represent increases to the following accounts:

- Field labor increase of $40,640 to reflect the addition of the employee hired in 2005 as well as pay increases for three employees,
- Meter Reading Labor increase of $532 to reflect the 2006 wage level for one employee,
- Office Labor increase of $4,326 to reflect the 2006 wage level for 1.5 employees,
- Administrative Labor increase of $4,080 to reflect the 2006 wage level for one employee, and
- Employee Benefits increase of $18,506 to reflect the 2006 expense level for all employees.

Staff proposes adjustments to Field Labor, Meter Reading Labor, Officers and Directors Salary, and Employee Benefits.

Staff's adjustment to Field Labor incorporates the actual pay rate for one field employee. The Staff adjustment incorporates the current rate of pay for this employee. Staff's audit revealed that the actual rate of pay for this employee differed from the projected rate of pay used in the Company's Application. This adjustment reduces expenses by $7,654.

Staff proposes to reduce labor meter reading expenses. Currently the meter reader is paid a monthly salary. The salary is spread out over 12 months and is calculated on a monthly salary for 9 months. The meter reader has been employed by Falls Water Company for 5 years. In discussion with Company management, Staff understands that the current monthly meter reading takes an average of 2 to 2.5 days a month. Meters are read by the meter reader monthly beginning on or about April 15th, with the final read for the season taking place on or about October 15th. Therefore, the meter reader reads the residential meters a total of 7 times a year. Residential meters are not read during the winter months. The commercial meters are read either by the manager (summer months) or one of the field labor personnel (winter months).

Staff asserts that the proposed yearly salary is more than generous for the time worked. Staff proposes to adjust the labor meter reader expense to reflect the current market rate for meter readers with 5 years of experience. Staff has used, as a basis for an hourly wage, the wage paid to meter readers with similar experience at United Water Idaho. The residential meters are read a total of 7 times a year. Staff proposes an adjustment based on 20 hours monthly (2.5 days at the standard

8 hours per day) at a rate of $18.79 per hour. This monthly amount, calculated based upon the 7 times a year that meters are read by the meter reader, equates to $3,110.42 yearly.

Staff's adjustment reduces O&M expenses by $4,871. This adjustment incorporates the actual time spent by the meter reader at a competitive rate of pay.

Staff proposes to reduce the salary expense for the Officers and Directors. This adjustment would put the Officers and Directors Salary at the same level as in the last rate case. In discussions with the Company, Staff understands that the directors have spent less and less time directly and indirectly on Falls Water Company matters. In Case No. FLS-W-95-1, in response to Staff Production Requests, the Company stated that they did not "propose any change from the compensation plan that has been in effect for many years at Falls Water. ...This plan effectively does not compensate any officers or directors for their role as an officer or director, but only for the time they spend on the day-to-day management of the Company." (Response to Second Production Request, received April 17, 1995.) The manager position was created and staffed in May of 1999. Since that time, the day-to-day management of the Company fell increasingly to this manager. It is Staff's understanding that the directors and officers spend very little time on the day-to-day management of the Company. In the course of the audit, Staff reviewed the minutes of the Board of Director's meetings for Falls Water Company. There was one meeting per year during the last three calendar years. The Board of Director minutes bear out the fact that the current directors and officers spend very little time on the business of Falls Water Company. Therefore, the increase in salary chargeable to water customers is not warranted. Staff's adjustment reduces O&M expenses by $6,120.

Staff also proposes an adjustment to Employee Benefits. In the Company's filing, the Company has included an adjustment for an increase in health insurance premiums. At the time of the audit, the increase in premiums had not taken place, nor was the Company able to provide evidence that the proposed increase would be implemented. Staff removes this increase to employee benefits as not being known and measurable. In addition to not being known and measurable, Staff believes that sharing of the premium increase between the employees and the Company would be appropriate, were the increase in premiums to take place. The Company proposes to absorb the entire increase in premiums rather than pass on any of those costs to the employees. Staff reduces health benefits by $8,400. The Company has begun a 401(k) retirement program. The Company contributes a percentage based on the employee salary. Because Staff has reduced employee labor, there is a corresponding reduction to benefits. Staff reduces benefits for

the 401(k) retirement plan by $259. Staff's total employee benefits adjustment reduces O&M expenses by $8,659.

Telephone Expense - Staff Adjustment C

Staff proposes to remove $1,200 from telephone expense. The Company provides its employees with cellular telephones. The Company currently provides cellular telephones to the three field labor employees, the meter reader, the full-time office staff person, and the Company manager. Staff asserts that providing a cellular telephone to full-time field employees is reasonable. It is also reasonable that the manager have a Company provided cellular telephone. While one could argue that there may be less expensive ways for the Company to keep in touch with its employees, Staff recognizes that the cellular telephone has become the generally accepted means of communication for field employees in the business world today. However, Staff does not believe it is reasonable to provide the full-time office staff with a cellular telephone. It would be a rather unusual occasion that would necessitate contacting office support after business hours by cellular telephone. It is also unreasonable that the meter reader, working only 2.5 days a month, 7 months out of the year, would require a cellular telephone at customer expense for the entire year. Perhaps a cellular telephone could be shared as needed by clerical staff and the meter reader. Staff's adjustment removes $100 per month from telephone expense for two cellular telephones. This cost may continue to be incurred by the Company but Staff recommends it not be funded by customers.

Transportation Expense – Staff Adjustment D

Staff has adjusted the Company's transportation expense to include the current cost of fuel in the transportation calculation. The Company used $2.869 per gallon of fuel. This was the current cost of fuel at the time the Company was compiling its rate case. Staff has used the more current cost of $2.269 per gallon of fuel. Staff's adjustment also removes costs that represent one-time costs. Staff's adjustment removes half the cost of tires. In 2005, new tires were purchased for two of the three utility vehicles. Staff's adjustment includes the cost for one set of tires each year to levelize this cost. Staff's adjustment also removes expenses for one-time travel expenses. Finally, Staff increases transportation expenses to reclassify the interest expense for the vehicle loan that is reflected in the Company's Application under Interest Expense. The vehicle loan interest is more appropriately reflected in transportation expense, not in interest expense. This increases

transportation expense by $412.00. Staff's transportation expense adjustment removes $4,479 from expenses.

Regulatory & Bad Debt Expense – Staff Adjustment E

Regulatory and Bad Debt are both expenses that vary with the fluctuation in revenues. The Company makes adjustments to both regulatory expense and bad debt expense. Staff also has adjustments to regulatory and bad debt expense. Staff's adjustment reflects the adjustment in revenues. Staff's adjustment to Regulatory Fees reduces expenses by $503. Staff calculates that in 2005 1.045% of revenues are uncollectible. Staff's adjustment of $2,035 incorporates that level of bad debt expense.

In the last case, the Commission directed the Company to implement a more aggressive collection practice to reduce its bad debt expense. Since the last case, the Company has implemented procedures to reduce its bad debt. One thing that contributes to the Company's bad debt expense is the turnover in mobile home rentals. There are instances when unpaid water bills are left behind when a rental has been vacated, and collection of the past due amount is unlikely. The Company now turns over unpaid accounts to a collection agency and this has helped reduce bad debt expense. Bad debt expense, when expressed as a percentage of gross revenues, has declined each year since the last rate case.

Training Expense – Staff Adjustment F

Staff removes $900 of training expense as not being representative of the normal amount of yearly training incurred by Falls Water Company. The level of expense included in the 2005 case is for training that is a one-time experience and not an on-going training expense, therefore Staff removes half the amount of training included by the Company. Staff asserts that this adjustment provides for a more reasonable level of ongoing training in the future, for the period when rates will be in effect.

Amortization Expense and Interest Expense – Staff Adjustment G

The Company proposes to include an amortization expense of $37,833. This amortization expense is to recover expenses that were incurred in 2004 and 2005 for unanticipated O&M and office expenses. At the time the last rate case was filed, the Company shared office space and office personnel with an affiliate of the parent company. As the last case was finalized in December

of 2003, Falls Water Company was informed by the owner that the office space it occupied was needed for the expansion of affiliate businesses. Falls Water moved into its current office space in January of 2005. Because the Company shared office staff with the other affiliates at the previous location, the Company needed to hire a new employee to assist with the clerical and receptionist duties previously shared with the affiliate company. Falls Water Company also had the need for an additional serviceman, but not the necessary cash flow. The owner of the Company funded a portion of the expenses for this additional employee. Falls Water Company seeks to amortize $75,667, the expense for the 2 additional employees, over 2 years for an increase in expenses of $37,833 per year. The Company also includes an adjustment to interest expense of $5,328.

Staff removes the amortization of expenses the Company incurred in 2004 and 2005. While the Company actually incurred these costs, 2004 is outside the test year, extraordinary and non-recurring, not reflective of on-going expenses, and to include these costs would retroactively capture costs contrary to traditional commission ratemaking. The labor expenses for 2005, including the transferred employee are included in the test year and are incorporated in this case. To include the amortization of these past costs through rates would violate the principle that rates must be prospective and may not be used to recoup past expenditures through future rates unless they are preserved for that purpose by deferral or other regulatory action. This Staff adjustment removes $37,833 from expenses.

Staff proposes an adjustment to Interest Expense, made up of three separate adjustments. The first adjustment is to remove the interest expense associated with long term debt. Long term debt with the State Revolving Loan Fund and the parent company are components of the capital structure. Because Staff includes long term debt in the calculation of the overall return on rate base, the amount of interest expense associated with the long term debt is included in the return rather than including interest as an expense. The amount of this adjustment is $15,037.

The second adjustment to interest expense moves the amount of interest expense associated with a vehicle loan from the interest expense account to the transportation expense account. The vehicle loan interest is better reflected in transportation expense. The amount of interest associated with the vehicle loan is $412.00.

The final adjustment to interest expense removes $2,006 to correct a computational error in the Company's spreadsheet. The heading of the interest expense column, showing the year 2006, was inadvertently added to the interest expense. Staff's adjustment to interest expense properly

reflects the interest expense with the return for ratemaking purposes. Staff's adjustment removes $17,455 from expenses.

Income Tax Expense – Staff Adjustment H

The Company also makes adjustments for increases in income taxes associated with the increase in revenues requested in this case. These adjustments to state and federal income tax total $41,849.

Income Tax Expense is an expense that varies with the fluctuation in revenues and expenses. As Staff adjusts expenses and revenues, the income taxes must also be adjusted. After all proposed adjustments, Staff's adjustment to federal income taxes reduces expenses by $32,444 and reduces State income taxes by $8,780.

RATE BASE, CAPITAL STRUCTURE, AND REVENUE DEFICIENCY

The Company proposes a rate base of $651,588. The Company proposes no adjustments to its actual Utility Plant in Service. The Company's proposed rate base is comprised of the following components: Utility Plant in Service less Contributions in Aid of Construction (CIAC) and Accumulated Depreciation of $579,926; and a working capital component of $71,661 using the 1/8th of Operation an Maintenance expense method. The Company uses a capital structure of 100% Equity, so the proposed 12% return on equity is also the overall return on rate base used to calculate the return on rate base of $78,191.

The Company calculates the revenue deficiency to be $258,264. The revenue deficiency is calculated by adding the requested return on rate base of $78,191 to the difference between the operating revenues and expenses of $180,073.

Staff Proposed Capital Structure and Overall Rate of Return

The Company's last rate case used a 2002 test year. At that time, the capital structure was made up entirely of common equity. In 2004, the Company entered into long-term debt with the State Drinking Water Revolving Loan Account administered through the Department of Environmental Quality. The Company is also repaying a loan from the parent company. These loans reflect the Long Term Debt. The Company's capital structure has changed with the addition of this long-term debt, and is currently 71.8% long-term debt and 28.2% common equity.

In the last rate case, the Company was granted a 12% rate of return (on 100% common equity) and instructed to use the return on investment as a reserve for capital improvements, repair and replacement. As the Commission stated in Order No. 29397 dated December 12, 2003, "We continue to find a 12% return on equity to be reasonable for Falls Water. In doing so we acknowledge that small water companies have greater risks than other utilities. We also recognize the operational and economic challenges facing small water companies in their continuing efforts to provide their customers with safe, potable water."

Staff continues to support a 12% rate of return on common equity. Using the actual capital structure and a return on equity of 12%, Staff calculates an overall rate of return of 6.30% as shown in the table below.

DESCRIPTION	AMOUNT	PERCENT	COST	WEIGHTED COST
State Revolving Loan Fund	$259,363	50.5%	3.25%	1.64%
Long Term Loan to Parent	$109,305	21.3%	6.00%	1.28%
Common Equity	$144,834	28.2%	12.00%	3.38%
Total	$513,502			6.30%

Staff Proposed Rate Base

Staff has audited the amounts included in plant in service in the Company's filing and finds the test year amount to be acceptable. As in the last case, Staff removes the working capital component of rate base. Staff's working capital analysis finds that the customers continue to supply the working capital needs of the Company. Based on that analysis, Staff recommends no return on working capital. Staff's adjustment to rate base provides a rate base of $579,926. Applying the overall rate of return produces a return on rate base of $36,535. Staff's adjustments to revenues and expenses total $98,759. With Staff's adjustments, the net income after taxes is $11,875. After including the return on rate base of $36,535, and applying the gross-up factor for income taxes, the total increase recommended by Staff is $31,951. Based on its findings, Staff recommends an increase of $31,951 or 5.34%.

During the course of its audit, Staff found that the installation and plant costs associated with hook-up fees are not accounted for completely. The Company collects hook-up fees in an amount that approximates the actual cost for each hook-up. The Company currently accounts for all employee labor and benefits as operating expenses. When a capital item is placed in service, the

Company should be capitalizing the employee labor and benefits associated with the time the employee spends on that activity rather than expensing it in the current year. All costs, including company labor, incurred by the Company from a new hook-up should be capitalized to the appropriate plant-in-service account, and the amount of the hook-up fee should be accounted for in the Contribution in Aid of Construction account. The Company accounts for the hook-up fee correctly when they receive it but does not properly book the plant expenditures.

When accounting for a hook-up fee, the contributions in aid of construction account offsets the plant-in-service account, so that in theory, plant in service is not increased by the hook-up expenses. The hook-up fee is designed to cover the full amount of the costs incurred. When accounted for properly, the plant will be capitalized and to the extent that the hook-up fee does not cover the expenses of the hook-up, those additional costs beyond what the hook-up fee covers will be included in rate base.

Staff believes the effect from past hook-up accounting errors is small and makes no recommendation to correct the current balance in the plant-in-service accounts. However, as the Company implements the meter replacement program, and places meters in the unmetered mobile home park, Staff recommends that the employee labor and benefits be properly capitalized when employees work on capital projects.

ENGINEERING ISSUES

Water Usage

Falls Water Company's water usage in 2005 was 929 million gallons with an average use per customer of 319,335 gallons, well below the prior 5-year average of 368,979 gallons. The 2005 test year water usage reflects historical patterns with approximately 50% of the water being used in the three hottest summer months of July, August and September. This is important when considering the limitations on the Company's total annual water allocation and pumping rates allowed under its existing water rights.

The following table shows both the total usage and the usage per customer by tariff schedule. The two customer groups with the greatest use are the R-1 Metered Residential and R-2 Flat Rate residential customers. Together, these two customer classes make up approximately 95% of the total customer usage.

2005 Falls Water Customer Water Usage Data						
Customer Class	**R-1 Residential**	**R-2 Flat Rate**	**R-3 Multi-Family**	**C-2 Commercial**	**Waste and Leakage**	**Total Water Pumped**
No. of Customers	**2,225**	**585**	57	41	N / A	2,908
Usage, gallons X 1,000	**462,253**	**390,916**	12,151	24,017	39,434	928,771
Usage per Customer, gallons	**207,568**	**668,232**	213,175	585,780	4.2 %	319,385

Unmetered R-2 customers as a class represent approximately 20% of the total customers, but used approximately 44% of the water consumed in 2005. The high per customer use of the unmetered R-2 category indicates a potential for significant reduction of water use and waste through metering and leak detection in this older part of the Falls Water System.

Given that the Company has experienced significant growth (33% in 3 years) and there are continuing high growth expectations and potable supplies appear limited, there is an identified need for the Company to conserve, eliminate waste and leakage and to find alternatives that reduce use. The best place to look for additional resources is within the Company's system through leak detection/elimination and efficient end use by existing customers.

Water Resources

In a contested petition for additional water rights before the Idaho Department of Water Resources in 2004, the Company sought to increase both its total allowable annual consumption and its maximum allowable withdrawal rate. The Company's petition was opposed by a local irrigation district, the Northside Canal Company. Reference Falls Waters, Inc. Application for Permit No. 25-14114. A settlement agreement was negotiated in 2005 that allows the Company to increase its pumping rates but did not increase the Company's water allocation. The settlement also requires that the Company "*actively seek a new county ordinance for Bonneville County that would require new subdivisions to acquire or use appurtenant surface water rights for irrigation purposes.*"

In July of 2005, the Idaho state legislature passed and the governor signed a bill requiring the use of surface water for irrigation where surface water rights are available. Reference Idaho

Code Section 67-6537. Staff notes that some cities and counties have passed ordinances requiring the use of surface water for irrigation in new developments (Meridian and Twin Falls). Reference Twin Falls City Ordinance No. 2607 and Meridian City Code Title 11. Staff supports the Company's efforts to fulfill the requirements of the settlement agreement signed in 2005 by the Company and the North Side Canal Company.

Until such a county ordinance is enacted, other conservation methods should be a priority. These should include keeping better records of well production in support of water management, reducing waste and leakage, metering of unmetered customers, support of secondary irrigation and tariff structures that can encourage conservation by the customers.

Well Logs

Well log record keeping practices at Falls Water are poor. Well log data is manually read and recorded and there is not a procedure in place to guarantee that each well's flow is read and recorded on a scheduled basis so that the data is certain and recoverable. This particular shortfall at times results in Falls Water not knowing how much water has been pumped in a given period and the inability to report actual ground water used or actual water sent to waste (some goes to waste at each pump start) for each month. Working closely with Falls Water, Staff has been able to reconstruct the current test year well data to a level that is accurate enough for auditing and tariff determination.

Falls Water has investigated automated well pump flow meters for its 8 wells and found the cost to approach $150,000. This cost does not fit within current budget limitations. Alternatively, the existence of the Company SCADA system, which presently tracks all water system operations including when and for how long each pump is operated, is a tool that should be used to determine well pump flows for better well log and system record keeping. Staff recommends that the SCADA system and database, with certified calibrated pump curves be used to make reasonably accurate calculations of flows for any given period. The data gathered should then be periodically verified using a planned program of reading and comparing data from the manual read totalizing flow meters. This will allow the Company to better identify and control water loss and improve delivery efficiency thereby better utilizing existing water supplies. In support of this, Staff recommends that the Company purchase the software enhancements to its existing SCADA software that are necessary to implement better record keeping, especially for well production.

Meter Replacement

In addition to the planned installation of meters at the 585 residences that are currently unmetered, as discussed further below, the Company is initiating a program to replace 5% of its oldest meters each year. The meter replacement program will, at present, call for 116 meters (5% of the existing 2,323 meters) to be replaced each year and allow for additional 25 meter replacements each year due to breakage, construction or other non-wear related problems. After all existing customers are metered the program will require at least 141 replacements per year. At a meter cost of $155.40 (including sales tax), an average total replacement cost of $180.40 for each meter replacement including incidental materials and labor is reasonable. This plan will require replacement of approximately 141 meters annually at a total cost of $25,436, which includes $20,926 for the 116 meters in the new meter replacement program.

While Staff understands the Company's desire to replace aging meters, we believe metering currently unmetered customers is a higher priority given the limited potable supply and the greater equity provided through metered rates. In order to facilitate more rapid conversion of the unmetered customers to a metered status, Staff recommends that for the first 3 years the meter replacement program resources be used to accelerate metering of currently unmetered customers. Staff analysis and recommendation is addressed below.

Metering of Unmetered Customers

There are 585 Flat Rate R-2 customers. The Company has proposed to convert these customers to the R-1 metered tariff over a period of 6 years. The customer water use analysis suggests there is excessive use, leakage or both taking place in the unmetered service area. Based on the result of its last application for additional water rights, the Company has stated that is unlikely to be granted new water rights and will therefore have to buy additional water rights. For this reason, Staff recommends acceleration of the program to meter unmetered customers from the 6-year program proposed by the Company to a three year program. By combining the first 3 years of the system-wide meter replacement program with the Company's proposed expenditures for metering of unmetered customers all unmetered customers can be metered within 3 years. The total cost to convert to metered status is approximately $169,670.

The breakdown of the sourcing of these 585 meters, their cost and the cost of installation between the proposed metering of unmetered customers and the meter replacement program is as follows:

Total meters required	585
Meters from system-wide replacement program	348
Additional new meters to be purchased	237
Cost of 237 additional new meters	$ 36,829.81
Installation for 472 residences with no meter barrel	$ 16,359.52
Cost of installation for 89 residences with wrong meter barrel	$ 47,615.88
Cost of installation for 24 residences with correct meter barrel	$ 14,786.18
Total Incremental Cost	**$115,591.37**
Cost of 348 Meters from Replacement Program	$ 54,079.20
Total	$169,670.57

Staff recognizes that the conversion of all unmetered customers to metered service in three years rather than six could be difficult for the Company given the accelerated capital requirements. Additionally, under the Staff recommendation, replacement of aging meters would be delayed. However, the Company has already proposed to spend approximately $37,000 over the next 3 years on replacement meters and an additional amount over the same period to meter half of the currently unmetered customers.

The estimated additional capital commitment when capital expenditures already planned by the Company over the three-year period are considered would be approximately $58,000.

As mentioned above, these unmetered customers have very high water usage rates. Leaks are believed to be a substantial problem for the area since it is a 50-year-old mobile home park. In addition, customers routinely leave water running in the winter to prevent frozen pipes after meter installation. In order to support conservation by individual customers and to identify and locate leaks, Staff recommends installing meters for all unmetered customers as quickly as practical. Staff further recommends that the Company provide these customers with weatherization information and assistance that could help them identify and eliminate leaks and reduce or eliminate frozen pipe concerns.

Minimum Charge Water Allowance

In considering conservation measures, Staff reviewed the amount of water included with the minimum charge. Falls Water presently includes 20,000 gallons of water with the monthly minimum charge and has proposed changing that to 8,000 gallons. There are several water

companies that provide less than 20,000 gallons with the monthly minimum charge (Brian Water for example at 4,000 gallons). As part of the review, it was determined that a significant change in the amount of water included with the minimum charge has relatively small effect on revenue. Revenue derived from the commodity rate was calculated at the 10,000, 12,000, 15,000 and 20,000 gallon allowance levels. Even at the maximum reduction of minimum charge water allowance from 20,000 gallons to 10,000 gallons the resulting annual revenue increase of approximately $6,300 (~1% of total revenue) was relatively small. The effect on a customer's average monthly bill is approximately sixteen cents per month. Changes in water allowances included with the minimum charge are therefore viewed as sending a conservation message only in combination with increases in the commodity rate. Staff believes that a reduction is appropriate to help send the correct conservation message, but that reduction of the amount to the 8,000 gallons proposed by the Company is too severe.

A 12,000 gallon minimum charge allowance is recommended based on the average winter use for metered customers which varies from about 6,000 gallons per month to approximately 12,000 gallons per month. At this time, Staff believes it is appropriate to set the amount of water included with the minimum charge at a level where few, if any, will pay for excess water in the winter months.

Tariffs

As mentioned above, the availability of new water supplies is driving a need to conserve existing supplies. Staff proposes changing the tariff design to encourage conservation. This will involve eliminating the flat rate customers over the next 3 years, increasing the portion of total revenue collected from excess commodity usage and reducing the amount of water included with the minimum charge.

The Company proposed tariff for R-1 (metered, residential) customers increases both the monthly minimum charge and the commodity charge for water used in excess of the minimum allowance. Additionally, the Company would set summer and winter tariffs with differing minimum charges and minimum allowances and establish a new tariff for new subdivisions with secondary irrigation. The Company has proposed the differential summer/winter rates for R-1 and the new R-4 rate to promote conservation and the use of secondary irrigation. Staff finds no justification for the split rate for R-1 customers, especially when compared to the single rate for metered multi-family and commercial customers. While Staff supports the secondary irrigation

measures proposed, we also believe it is inappropriate to implement a rate differential before a separate irrigation ordinance exists or separate irrigation systems are available. The table below details the current tariff, the Company's proposed tariff and Staff's proposed tariff.

SCHEDULE	CURRENT TARIFF		COMPANY PROPOSED TARIFF		STAFF 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 gallons	Summer $12.75 Winter $15.00	$0.85 per 1,000 gallons over 8,000 gallons; $0.85 per 1,000 over 15,000 gallons	$11.50	$0.45 per 1,000 gallons over 12,000 gallons
R-2	$17.50	N/A	$19.25	N/A	$19.60	N/A
R-3	$11.50	$0.41 per 1,000 gallons over 20,000 gallons	$12.75	$0.85 per 1,000 gallons over 8,000 gallons	$11.50	$0.45 per 1,000 gallons over 12,000 gallons
R-4	N/A	N/A	$12.75	$2.50 per 1,000 gallons over 8,000 gallons	N/A	N/A
C-2	$11.50	$0.41 per 1,000 gallons over 20,000 gallons	$12.75	$0.85 per 1,000 gallons over 8,000 gallons	$11.50	$0.45 per 1,000 gallons over 12,000 gallons

The tariff proposed by Staff provides the Staff recommended revenue requirement of $630,041 with rate changes aimed at sending a price signal to induce water conservation. Given the proposed reduction in the amount of water included with the minimum charge from 20,000 gallons to 12,000 gallons, Staff believes it would be inappropriate to increase the minimum charge. The required revenue increase will come solely from the excess water commodity charge. The Minimum Charge in the tariff proposed by Staff provides approximately 72% of required revenue while the excess use commodity charge will provide 28%. The Company's present tariff structure provided approximately 78% of its revenue from fixed charges and 22% from excess water commodity charges in 2005. As a comparison, the minimum charge for United Water residential

customers provides about 57% of United Water's residential revenue. Staff believes this proposed move toward higher revenues based on actual use is consistent and appropriate.

The resulting annual average bill for each customer class under the Staff proposal is compared to both the present annual bill and the bill that would result from the Company proposed tariff in the table below:

Schedule	Present Average Annual Bill (Adjusted)	Annual Average Bill with Company Proposed Tariff	Percent Change from Present	Annual Average Bill with Staff Proposed Tariff	Percent Change from Present
R-1, Metered Residential	$202.92	$295.55	45.6 %	$209.25	3.12 %
R-2, Flat Rate Residential	$210.00	$231.00	10.0 %	$235.20	1.81 %
R-3, Multi-Family	$208.88	$344.82	65.1%	$215.79	3.3%
C-2, Commercial	$388.22	$569.75	46.8 %	$412.63	6.3%

CUSTOMER RELATIONS

A Notice to Falls Water Company's customers was filed with its Application for a rate increase. The Notice was mailed to customers and the news media on November 7, 2005 as required by the Utility Customer Relations Rules (IDAPA 31.21.02102). The original notice to customers did not state that the rate Application was on file at both the Company's and the Idaho Public Utilities Commission's offices. Staff brought this to the attention of the Company, and it mailed out in the next month's bill a statement that the Application could be reviewed at both the Company office in Idaho Falls as well as at the Idaho Public Utilities Commission office in Boise, Idaho.

Since January 2004, only four customers have contacted the Commission. Three of them called to express their objection to the 2005 rate request or ask questions about it. The other customer complained that they didn't understand why they had to pay a reconnection fee after the service had been shut off due to non-payment. A workshop was held in Idaho Falls on January 25, 2006. Sixteen customers attended, and actively participated in asking questions regarding the

Company's filing for an increase in rates. A Public Hearing is scheduled for March 15, 2006 in Idaho Falls.

A review of Falls Water Company's forms, notices and billing statement shows the Company to be in compliance with 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 information on water rates and a summary of UCRR rules as required by Rule 701.

In Order No. 29397 (Case No. FLS-W-03-1 p.8, ¶ 3), Falls Water Company was directed to replace the meters in the Henderson Trailer Park area on or prior to June 15, 2004. According to Manager, Scott Bruce, 45 of the 47 meters in Henderson Park were replaced in the months of March through June 2004. There were two meters in the Park, however, that were not replaced until July 2005. In one instance, the angle valve in the meter barrel was not functioning. The Company had trouble locating the other meter. All the meters at Henderson Trailer Park have now been replaced.

In this Application, Falls Water seeks to add a field collection fee. A fee of $15 would be imposed upon customers who fail to respond to notices of termination for non-payment on account and do not pay until the service technician is at the home ready to terminate service. In calendar year 2004, the Company collected payment at the doors of 12 customers. In 2005, there were ten customers who paid the service technician at the door. The Company delivers a final disconnect notice to a customer 24 hours in advance of the proposed disconnect date. If the customer fails to respond, the service technician makes a second trip to the residence the next day to disconnect service. If customers are experiencing financial difficulty in paying the full amount of the bill, they can call the Company to work out some payment arrangements. However, when there is no contact from the customer, the Company has no alternative except to proceed with disconnection of service. Staff supports the Company being able to collect a $15 fee for each time the service technician is at the premises to disconnect service and in lieu of disconnecting, collects payment at the door. Other water, gas and electric companies have been allowed to charge a field collection fee in amounts ranging from $15 to $20. Staff recommends that Falls Water Company be allowed to charge a $15 field collection charge. Staff also recommends that the "Field Collection" fee be described in the Company's tariffs. In the Company's proposed tariffs, the fee is itemized without an accompanying description of when the charge will apply. This fee should be assessed when a personal visit is made by a Company representative to a service address in order to terminate service and at such time the customer makes a partial or full payment on the bill. The Field Collection charge should

not be assessed if service is terminated. If service is terminated and the customer pays the bill and requests reconnection of service, the Company's already authorized reconnection fee will apply.

Summary Of Customers' Comments

As of February 28, 2006, the Commission had received 35 written comments regarding this rate Application. Twelve customers commented that they believed it was unfair to reduce the number of gallons included in the monthly minimum while at the same time increasing the monthly rate. They believe this results in a double increase to them. Eleven customers stated that they were willing to pay a reasonable increase in rates, but not as much as the Company was requesting. Seven customers felt that the percentage of increase requested for metered customers was significantly higher than the unmetered customers and that it was not fair. Four customers claimed lower water rates were paid by customers of other nearby water companies and felt that their rates should be no higher than $15-$20 a month. Three customers mentioned that new development should pay for itself. One customer stated that the City of Idaho Falls requires a certain amount of landscaping, apparently implying that the increased rates would have an impact on landscape irrigation. One other customer brought up the fact that they had not received any promotional information from Falls Water encouraging water conservation. The customer cited several instances of other customers watering in the heat of the day, schools watering open fields, etc. The customer stated that there should be some effort to promote conservation.

In the last rate case, Case No. FLS-W-03-1, Staff pointed out that the Company has no active conservation program and that the flat rate customers have little incentive to conserve water. It was recommended by Staff in that case 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. Although Order No. 29397 directed the Company to provide water conservation and wise use of water information to customers (p. 8, ¶ 1), the Company has not provided any additional information other than the same two sentences it used in the "Spout" in 2003. Staff recommends that the Company be directed to provide brochures or fact sheets specifically directly at water conservation and wise water use and mail them out once each year with the bills prior to high summer water months. Staff can provide examples of printed materials used by other water companies if the Company needs assistance in preparing its information.

SUMMARY OF RECOMMENDATIONS

Staff recommendations are as follows:

1. Change tariffs as shown below to reflect an increase to revenues of $31,951 or 5.3%.
2. Provide water conservation/wise water use information to its customers.
3. Implement the proposed $15 field collection charge and file a revised tariff that describes when the charge will apply.
4. Shorten the proposed 6-year period for conversion of unmetered customers to metered status to 3 years.
5. Enhance existing SCADA software to implement better record keeping, especially for well production.
6. At the time of conversion to metered status, provide previously unmetered customers with weatherization information to minimize frozen pipe problems.
7. File tariffs as described below.

Schedule	Minimum Charge, $	Commodity Charge, Each 1,000 Gallons over 12,000
R-1, Metered Residential	$11.50	$0.45
R-2, Flat Rate Residential	$19.60	N / A
R-3, Multi-Family	$11.50	$0.45
C-2, Commercial	$11.50	$0.45

Respectfully submitted this 3rd day of March 2006.

Scott Woodbury
Deputy Attorney General

Technical Staff: Harry Hall
Kathy Stockton
Carol Cooper

i:umisc:comments/flsw05.1swdesklscchh

Staff Adjustments
Falls Water Company, Inc.
General Rate Case
FLS-W-05-1

	Falls Water Proposed	Normalize Revenues For Consumption & Power Expense A	Labor & Benefits Expense B	Telephone Expense C	Transportation Expense D	Regulatory & Bad Debt Expense E	Training Expense F	Amortization & Interest Expense G	Income Tax Expenses H	Total Staff Adjustments I	Total Staff Proposed
Ordinary Income/Expense											
Income											
400 · Operating Revenue											
460 · Unmetered Revenue	124,145									0	124,145
461.1 · Metered Residential	397,651	29,537								29,537	427,188
461.2 · Commercial Revenue	13,532	1,526								1,526	15,058
474 · Other Utility Revenue	637									0	637
Total 400 · Operating Revenue	535,964	31,063	0	0	0	0	0	0	0	31,063	567,027
Total Income	535,964	31,063	0	0	0	0	0	0	0	31,063	567,027
Expense											
601.5 · Labor Field	138,215		(7,654)							(7,654)	130,561
601.7 · Labor Meter Reading	7,981		(4,871)							(4,871)	3,110
601.8 · Labor Office	42,777									0	42,777
601.9 · Admin - Labor	62,368									0	62,368
603 - Salary Officers & Directors	13,824		(6,120)							(6,120)	7,704
604 - Employee Benefits	31,912		(8,658)							(8,658)	23,254
610 · Purchased Water	1,112									0	1,112
615 · Electrical Power	99,809	3,110								3,110	102,919
618 · Chemicals	2,952									0	2,952
620.2 · Source M&S	4,091									0	4,091
620.6 · Distribution M&S	24,496									0	24,496
620.7 · Postage	11,872									0	11,872
620.8 · Office	11,744									0	11,744
620.81 · Telephone Expense	11,119			(1,200)						(1,200)	9,919
620.82 · Bank Service Charges	762									0	762
620.83 · Office Utilities Expense	1,966									0	1,966
631.1 · Engineering	3,715									0	3,715
631.2 · Accounting	1,893									0	1,893
631.3 · Attorney	4,406									0	4,406
635 · Testing	3,410									0	3,410
636.2 · Source Contract Repairs	3,395									0	3,395
636.3 · Trash	198									0	198
636.6 · Distribution Contract Repairs	10,906									0	10,906
636.7 · Data Processing	3,078									0	3,078
641 · Rental of Property	11,868									0	11,868
642 · Rental of Equipment	6,845									0	6,845
650 · Transportation Expense	23,008				(4,479)					(4,479)	18,529
656 · Insurance Expense	9,468									0	9,468
660 · Advertising Expense	2,054									0	2,054
670 · Bad Debt Expense	8,285					(2,359)				(2,359)	5,925
675.1 · Training Expenses	1,800						(900)			(900)	900
675.2 · Dues & Publications	870									0	870
675.4 · IDHW Fee Expense	10,988									0	10,988
65.9 . Uncategorized Expenses	100									0	100
Total Expense	573,290	3,110	(27,303)	(1,200)	(4,479)	(2,359)	(900)	0	0	(33,131)	540,158
Net Ordinary Income	(37,226)										26,869
Other Income/Expense											
Other Income											
421 · Non-Utility Income	8,626									0	8,626
Total Other Income	8,626										8,626
Other Expense											
403 · Depreciation Expense	44,015									0	44,015
407 . Amortization Expense - Other	37,833							(37,833)		(37,833)	0
408.10 · Regulatory Fee	2,035					(582)				(582)	1,453
426 · Misc. Non-utility Expenses	1,471									0	1,471
427.3 · Interest Expense	17,455							(17,455)		(17,455)	0
Total Other Expense	102,810		0	0	0	(582)	0	(55,288)	0	(55,870)	46,940
Net Other Income	(94,184)										(38,314)
Net Income Before Taxes	(131,410)										(11,445)
408 · Taxes											
408.11 · Property Taxes	4,129									0	4,129
409.10 . Fed Income Tax	34,539								(36,688)	(36,688)	(2,149)
409.11 · State Income Tax	9,995								(11,241)	(11,241)	(1,246)
Total 408 · Taxes	48,663			0	0	0	0	0	(47,929)	(47,929)	733
Net Income After Taxes	(180,073)						Net Income After Taxes				(12,179)
Company							STAFF				
Return on Rate Base Requested	78,191						Staff Return on Rate Base Recommended				36,535
Return on Rate Base	12%						Overall Return on Rate Base				6.3%
							Staff Revenue Deficiency				48,714
							Net to Gross Multiplier				1.2956
Total Increase Requested	258,264						Staff Total Increase Recommended				63,116
Total Revenue Requested	794,228						Staff Total Revenue Recommended				630,143
Percentage Increase Requested	48.2%						Percentage Increase Recommended				11.13%

Corrected Attachment A
Case No. FLS-W-05-1
Staff Comments
03/03/06

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 3RD DAY OF MARCH 2006, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. FLS-W-05-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

K SCOTT BRUCE
FALLS WATER COMPANY INC
1770 SABIN DR
IDAHO FALLS ID 83406

SECRETARY