



FALLS WATER COMPANY

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IDAHO PUBLIC
UTILITIES COMMISSION

December 6, 2007

Idaho Public Utilities Commission
ATTN: Commission Secretary
472 W. Washington
Boise, Idaho 83702-5983

Subject: Company Reply to Staff Comments

Dear Commission Secretary:

Enclosed are an original and seven copies of the Company Reply to Staff Comments together with supporting exhibits. Please call if you have questions.

Sincerely,

K. Scott Bruce
Manager

the Company's application. This change would reduce the Company's costs by \$3,419.50 ($47,250 \times 18.92$ less $40,000 \times 13.8\%$).

The company must have a certified operator in charge and a certified backup operator to meet state requirements. The company's system is a Class II system and the operator in charge and the backup operator must hold at least a Class II certification. Currently, the operations manager, who is a Class II operator, is our certified operator in charge. To meet the certified backup operator, the company must currently use a Class II certified operator who is not a company employee. Currently, that individual is the former owner of Falls Water Co., Inc., Kelly Howell. The fee he charges through RDI West includes this service to the company. Field personnel are to become certified operators and as they receive their certification, they receive a pay increase to recognize their level of training and the contribution to the company made by having the certification. The employees must first have their Class I certification before they can take their test for Class II certification. One of the field employees passed the certification test taken on November 7, 2007. He received his Class I certification. The employee received a wage increase of \$1.50 per hour effective November 19, 2007. The annualized increase in company field labor expenses associated with this increase is \$3,905.09 ($\$1.50 \times 105.25\%$ (December 18, 2007 wage increase)) $\times 2080$ hours/year $\times 118.92\%$ (Payroll taxes and Workers Compensation Insurance percentage)). The annualized employer's match for the 401k associated with the wage increase will increase expenses by \$98.51 ($\$1.50 \times 105.25\%$ (December 18, 2007 wage increase)) $\times 2080$ hours/year $\times 103\%$ (Employer 401k match percentage)).

To Summarize, the Applicant believes the PUC Staff's payroll adjustments are unjust and unreasonable. The increased costs to the Company are known and measurable. The Company is or will be experiencing these costs before the Commission issues its order. To deny these costs makes it impossible for the Company to recover its operating costs. Denial of these costs places a burden on the Company owners to either subsidize the water company operation or cut back on service to the detriment of the water customers.

The Commission should reject Staff's downward adjustments to wage and salary costs in the amount of \$28,365.93 and substitute the net downward adjustments discussed above regarding the payroll cost of a new employee and operator certification in the amount of \$6,665.90.

Rental Expense, Staff Adjustment No. 2 (Staff Attachment No. 1 line 36).

Staff eliminated \$24,650.50 for expected increases in rental costs for the Company to move into new quarters that will consolidate office, maintenance and storage functions at one location. Although the new building has not yet been constructed, the permitting process has begun, land has been acquired by the building owner and lease agreements are in place. Construction has been delayed due to delays in the permitting process and now freezing weather has delayed commencement of construction. Construction will begin in the early spring of 2008 and we expect to occupy the facilities by June of 2008 (within 6 months of the Commissions order in this case. Staff has stated in its comments (Page 5) "The new office space is not yet 'used and useful' to the utility." The used and useful test is normally associated with utility investments in utility plant in service rather than operating costs. The used and useful test is usually associated with a new investment that will either increase revenues due to increased commodity sales or reduce expenses due to the elimination of an expense the new asset will make avoidable. That is not the case here. Were the Company constructing its own building, it would

experience a decrease in its rental expenses at the time the investment in the new asset was placed in service and added to the Company's rate base. This Company proposed proforma adjustment recognizes that the Company has grown beyond the physical limitations of its existing rented space and must move into a larger, consolidated more efficient location.

Contract Services, Staff Adjustment No. 3 (Staff Attachment No. 1 line 35)

Staff has eliminated \$24,000 of Contract services for payments made to RDI West. Staff is correct that RDI West is a subsidiary of Frontier Property Group the previous owner of Falls Water Company. Mr. Kelly Howell is an officer of Frontier Property Group and a director of Falls Water Company. Falls Water Company wants to point out that there are no salaries paid to the officers and directors of the Company due primarily to cash flow restraints. The services of Mr. Howell through his membership on the board and his experience owning and operating the Company in the past provide a valuable resource to the management of the Company. The \$24,000 paid to RDI West for "consulting services" are in lieu of director fees.

Accounting, Staff Adjustment A (should be No. 4). (Staff Attachment No. 1 line 28)

Company concurs with the Staff's adjustment.

Attorney Fees, Staff Adjustment No. 5 (Staff Attachment No. 1 line 29)

Company concurs with the Staff's adjustment.

RATE BASE

Staff has made two adjustments to the Company's rate base. The two adjustments are related and intertwined. They are discussed here simultaneously.

Falls Water Company is unique among regulated water companies in Idaho. Falls Water is unaware of any other regulated water company that collects a contribution in aid of construction from developers to pay for future source of supply and storage assets required to meet growth on the system resulting from the development activities. Most water companies accept the contribution of a completed asset (well and / or reservoir) from a developer who has constructed such facilities as a part of the property development project. United Water Company in Boise collects no contribution for these facilities but rather uses its retained earnings, debt or additional investor funds to construct these facilities thus increasing its investment in plant in service (rate base). All companies accept or will accept contributions of transmission and distribution piping, customer services, meters and fire hydrants. All such contributions are simultaneous with the addition of a new asset (plant in service, or rate base)

Falls Water Company is one of the larger regulated water companies in the state and is in an area that is growing rapidly. Unlike United water in Boise, Falls Water Company is a small independent company with few owners. Falls Water Company does not have access to the capital markets of United Water and other very large utility companies. Hence the contribution in aid of construction the Company is

authorized to collect for future source of supply and storage needs resulting from new development in the area.

Staff has eliminated from rate base the Companies investment of \$272,500.00 in its new well #9 that will be in service in mid 2008. Simultaneously, Staff has included the funds invested in this future asset in the "Contributions in Aid of Construction" Account that is a rate base deduction. In effect, the Staff here has "double dipped" the Company's rate base investments. The asset is not recognized in rate base while the contributed funds invested in the asset are used to reduce the company's investment in other assets. This is an inappropriate taking of the Company's investments.

Staff has also used additional developer contributions for source of supply and storage to reduce the Company's rate base by \$166,100.87. These contributions are intended to be used for future development of source of supply and storage facilities. The Company treats these contributed funds as dedicated funds for future construction of source of supply and storage facilities. They are considered contributions held for future use, an offset to property held for future use. They are not used to meet current cash flow needs for operating expenses or construct other asset improvements. The purpose of these developer contributions is to avoid rate shock in the future when large investments in wells and reservoirs are placed in service to meet new demands on the water system caused by growth. Staff's approach artificially suppresses current rates to existing customers and insures future rate shock to all customers when a new water source or storage asset is placed in service without the benefit of an additional contribution in aid of construction offset. In the meantime, Falls Water Company is precluded from earning a fair, just and reasonable return on investor funds used to construct facilities that are currently used and useful to provide service to our customers.

The Commission should reject the Staffs proposed rate base adjustments in their entirety.

RATE DESIGN

The Company's rate design is based on the Company adjusted annual revenue requirement of \$1,009,179.32. The Company proposes a single commodity rate for all customer classes of \$0.727/1,000 gallons and a monthly minimum charge of \$16.15, which includes 12,000 gallons of water. A comparison of the current rates, Staff proposed rates and the Company proposed rates are shown in the summary Table 1.

Table 1

SCHEDULE	CURRENT TARIFF		STAFF PROPOSED TARIFF		COMPANY PROPOSED TARIFF	
	Minimum Charge	Commodity Charge	Minimum Charge	Commodity Charge	Minimum Charge	Commodity Charge
R-1	11.53	\$0.48 per 1,000 gallons over 12,000 gallons	\$14.00	\$0.626 per 1,000 gallons over 12,000 gallons	\$16.15	\$0.727 per 1,000 gallons over 12,000 gallons
R-2	20.17	N/A	20.17	N/A	20.17	N/A
R-3	11.53	\$0.48 per 1,000 gallons over 12,000 gallons	\$14.00	\$0.626 per 1,000 gallons over 12,000 gallons	\$16.15	\$0.727 per 1,000 gallons over 12,000 gallons
R-4	11.53	\$0.48 per 1,000 gallons over 12,000 gallons	\$14.00	\$0.626 per 1,000 gallons over 12,000 gallons	\$16.15	\$0.727 per 1,000 gallons over 12,000 gallons

Attached to these reply comments are Company Exhibit Numbers 9, 10 and 11 that show the effect of these comments on the recommendations of the Commission Staff. The Company's reply recommendation would result in an increase of 44.22% as shown on Exhibit No. 11 line 13.

Respectfully Submitted,



Falls Water Company
K. Scott Bruce, Manager

FALLS WATER COMPANY
REVENUES & EXPENSES
TEST YEAR ENDED 12/31/2006
Exhibit 9

	A Staff Proposed	B Company Adjustments	C Company Proposed
1 Ordinary Income/Expense			
2 Income			
3 400 · Operating Revenue			
4 460 · Unmetered Revenue	-	-	
5 461.1 · Metered Residential	693,756.06	-	
6 461.2 · Commercial Revenue	21,592.19	-	
7 474 · Other Utility Revenue	835.00	-	
8 Total 400 · Operating Revenue	716,183.25	-	
9 Total Income	716,183.25	-	716,183.25
10 Expense			
11 601.6 · Labor Field	172,240.88	12,928.39	185,169.27
12 601.7 · Labor Meter Reading	-	-	-
13 601.8 · Labor Office	56,617.62	2,675.18	59,292.80
14 601.9 · Admin - Labor	112,635.10	4,696.46	117,331.56
15 603 · Salary Officers & Directors	-	-	-
16 604 · Employee Benefits	52,859.60	2,167.18	55,026.78
17 610 · Purchased Water	1,112.00	-	1,112.00
18 615 · Electrical Power	109,773.11	-	109,773.11
19 618 · Chemicals	4,816.21	-	4,816.21
20 620.2 · Source M&S	10,719.97	-	10,719.97
21 620.6 · Distribution M&S	37,105.71	-	37,105.71
22 620.7 · Postage	14,293.89	-	14,293.89
23 620.8 · Office	24,290.04	-	24,290.04
24 620.81 · Telephone Expense	12,824.06	-	12,824.06
25 620.82 · Bank service charges	1,731.00	-	1,731.00
26 620.83 · Office Utilites Expense	4,636.15	-	4,636.15
27 631.1 · Engineering	1,282.50	-	1,282.50
28 631.2 · Accounting	2,168.17	-	2,168.17
29 631.3 · Attorney	2,948.75	-	2,948.75
30 636 · Testing	8,099.69	-	8,099.69
31 636.2 · Source Contract Repairs	1,400.00	-	1,400.00
32 636.3 · Trash	1,017.36	-	1,017.36
33 636.6 · Distribution Contract Repairs	30,420.00	-	30,420.00
34 636.7 · Data Processing	3,716.00	-	3,716.00
35 636.8 · Contract Service - Consulting	-	24,000.00	24,000.00
36 641 · Rental of Property	11,868.00	24,643.50	36,511.50
37 642 · Rental of Equipment	20,108.20	-	20,108.20
38 660 · Transportation Expense	35,013.23	-	35,013.23
39 666 · Insurance Expense	12,097.00	-	12,097.00
40 660 · Advertising Expense	2,081.45	-	2,081.45
41 665 · Regulatory Commission Expenses	4,879.55	-	4,879.55
42 670 · Bad Debt Expense	8,688.20	-	8,688.20
43 675.1 · Training Expenses	2,515.27	-	2,515.27
44 675.2 · Dues & Publications	1,275.00	-	1,275.00
45 675.4 · DEQ Fee Expense	10,988.00	-	10,988.00
46 675.9 · Uncategorized Expenses	125.00	-	125.00
47 Total Expense	776,346.71	71,110.71	847,457.42
48 Net Ordinary Income	(60,163.46)	(71,110.71)	(131,274.17)
49 Other Expense			
50 403 · Depreciation Expense	73,222.22	-	73,222.22
51 408 · Taxes			
52 408.11 · Property Taxes	12,121.77	-	12,121.77
53 409.10 · Fed Income Tax	-	-	-
54 409.11 · State Income Tax	30.00	-	30.00
55 Total 408 · Taxes	12,151.77	-	12,151.77
56 408.10 · Regulatory Fee	1,780.43	-	1,780.43
57 Total Other Expense	87,154.42	-	87,154.42
58 Net Other Income	(87,154.42)	-	(87,154.42)
59 Net Income	(147,317.88)	(71,110.71)	(218,428.59)

Falls Water Company, Inc.
Calculation of Rate Base
Exhibit 10

Rate Base 2006	(A)	(B)	(C)
Net Assets			
1 Utility Plant in Service	2,573,701.87		
2 Net Correcting Entry to Utility Plant in Service	<u>99,794.37</u>		
3 Corrected Total of Utility Plant in Service		2,673,496.24	
4 Less: Contributions in Aid of Construction	1,512,893.13		
5 Correcting Entry to Contributions in Aid of Construction	<u>158,680.44</u>		
6 Corrected Total of Contributions in Aid of Construction		<u>1,671,573.57</u>	
7 Subtotal of Investor Owned Assets for Rate Base			1,001,922.67
8 Less: Accumulated Depreciation	491,076.85		
9 Correcting Entry to Accumulated Depreciation	<u>18,889.34</u>		
10 Corrected Total of Accumulated Depreciation		509,966.19	
11 Less: Accum Amort of Contribution in Aid of Construction	43,633.91		
12 Correcting Entry to Accum Amort of CIAC	<u>33,333.95</u>		
13 Corrected Accum Amort of CIAC		<u>76,967.86</u>	
14 Total Accum Depr net of Accum Amort of CIAC			<u>432,998.33</u>
15 Corrected Net Utility Plant @ 12/31/2006			568,924.34
16 Proforma additions to Plant (2007 & 2008 Meter Conversions)			181,522.80
17 Proforma Additions to Plant (Line Loop Extensions)			152,800.00
18 Working Capital (1/8 of Operation and Maintenance Expenses)			<u>105,932.18</u>
19 Rate Base			\$ 1,009,179.32

FALLS WATER COMPANY
 COMPANY CALCULATION OF REVENUE REQUIREMENT
 Exhibit 11

	A Staff	B Staff	C Staff	A Company	B Company	C Company
1 Rate Base	\$ 289,189.61			\$ 1,009,179.32		
2 Required Rate of Return	7.20%			7.20%		
3 Net Operating Income Requirement	\$ 20,829.79			\$ 72,689.31		
4 Net Operating Income Realized	\$ (147,317.89)			\$ (218,428.59)		
5 Net Operating Income Deficiency	\$ 168,147.68			\$ 291,117.90		
6 Revenue Increase necessary to overcome loss		Non-Tax \$ 147,317.89	Taxable		Non-Tax \$ 218,428.59	Taxable
7 Revenue Increase necessary for Income Requirement			\$ 20,829.79			\$ 72,689.31
8 Gross-up Factor		1.02	1.30		1.02	1.30
9 Revenue Increase Requirement		\$ 149,849.36	\$ 27,094.28		\$ 222,181.19	\$ 94,550.62
10 Total Revenue Increase Required			\$ 176,943.63			\$ 316,731.81
11 Adjusted Test Year Revenue			\$ 716,183.24			\$ 716,183.24
12 Total Revenue Requirement			\$ 893,126.87			\$ 1,032,915.05
13 Percent Increase Required			24.71%			44.22%