Office of the Secretary
Service Date
January 11, 2008

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF FALLS WATER COMPANY FOR AN ORDER AUTHORIZING INCREASES IN THE COMPANY'S RATES AND CHARGES FOR WATER SERVICE	)))))	**CASE NO. FLS-W-07-01** **ORDER NO. 30484**

On July 27, 2007, Falls Water Company filed a general rate case Application initially seeking authority to increase its metered rates an average of 46.2%. If approved, the rates would increase the Company's annual revenue by $330,705. Because the Company is in the process of converting its remaining flat-rate residential customers to metered service, the Company did not request any increase in its flat-rate service. Falls Water anticipates that it will finish converting its remaining flat-rate customers to metered service by mid-2008. The Company serves approximately 3,200 customers near Ammon and Idaho Falls.

The Commission Staff was the only other party to participate in this case. After performing its audit, Staff filed its comments on November 21, 2007. Staff recommended Falls Water's annual revenues be increased by approximately $176,900, or an average increase in its metered rates of 24.7%. The Company filed rebuttal comments on December 7, 2007, agreeing with some Staff adjustments and disputing others. On rebuttal the Company amended its proposed rate increase to 44.22%.

After reviewing the comments of the parties, the testimony at our public hearing and the customer comments, the Commission authorizes Falls Water to increase its metered rates an average of 27.93%, resulting in an annual revenue increase of $200,060. The rates contained in this Order shall be effective for service rendered on or after January 14, 2008.

BACKGROUND

In its Application Falls Water maintained that its revenues are no longer reasonable given the Company's increasing costs. The Company reported that it is in the final stages of converting the remaining flat-rate residential customers (approximately 350) to metered service. Falls Water anticipates completing the installation of its remaining meters by mid-2008.

In Order No. 30404, the Commission set a deadline for intervention and suspended the Company's Application for a period of 30 days plus 5 months from September 1, 2007.

There were no petitions to intervene. On September 4, 2007, the Commission Secretary issued the Notice of Parties identifying the Company and Commission Staff as parties. The parties subsequently recommended the rate case be processed under Modified Procedure and the Commission convene a public hearing in Idaho Falls. The purpose of the public hearing was to take testimony from customers and members of the public.

On October 24, 2007, the Commission issued Order No. 30457 adopting the parties' proposed schedule. Staff conducted a public workshop in Idaho Falls on November 15 and filed its written comments on November 21, 2007. Falls Water filed its rebuttal comments on December 7 and the Commission held its public hearing in Idaho Falls on December 18, 2007. The customer who testified at the public hearing and the six customers who submitted written comments all oppose the rate increase mostly objecting to the size of the proposed increase. In addition, several customers complained of poor water pressure during the past summer.

TEST YEAR AND CAPITAL STRUCTURE

1. Test Year. The Company's Application uses a test year ending December 31, 2006, based upon 12 months of actual data adjusted to normalize revenues and included "known and measurable" changes. Application at 2. Staff did not oppose the use of the 2006 test year. Staff Comments at 2, 13. We find the use of the 2006 test year reasonable for purposes of this case.

2. Capital Structure/Rate of Return. The Company proposed a capital structure of 60.01% long-term debt and 39.99% common equity. Company Exh. 3. The Company proposed to use the actual cost of its long-term debt: $248,944 at 3.25% and $94,382 at 6.0%. *Id.* The Company requested a 12.0% return on its common equity. As shown in the table below, this capital structure produces an overall rate of return of 7.2%. Staff agreed with the Company's proposed capital structure and its costs for debt and equity. Staff Comments at 2. Based upon our review of the parties' comments, we adopt the proposed capital structure shown below. We find that the capital structure produces a 7.2% overall rate of return, which is just and reasonable. The 12% return on equity is consistent with the equity returns authorized for other small water companies.

Capital Structure

Component	Amount	Percent of Capital	Cost	Weighted Cost
Long-term Debt	$248,944	43.51%	3.25%	1.41%
Long-term Loan	94,382	16.50%	6.00%	0.99%
Common Equity	228,791	39.99%	12.0%	4.80%
	$572,117	100.0%		7.20%

Source: Company Exh. 3; Staff Comments at 2.

EXPENSE AND REVENUE ISSUES

A. Agreed Expense Adjustments

1. Agreed Expense Adjustments. The Company proposed pro forma adjustments to nine expense categories. Exh. No. 2. The Company proposed a revenue adjustment of $28,060 to eliminate the flat-rate schedule (caused by the conversion to metered service) and annualized customer revenues for the test year. Exh. 2, Col. B. Regulatory fees associated with the increase in revenues were also adjusted. Staff accepted these adjustments. The Company also proposed and Staff accepted expense adjustments for source of supply, administration, equipment and vehicles, rate case expense, pro forma depreciation expense, and property and irrigation taxes. Exh. 2, Cols. E, F, H, I, J, K.

In its comments, Staff recommended the Commission not accept two adjustments proposed by the Company. Staff recommended that accounting and legal expenses be reduced by $956.83 and $4,067.25, respectively. Staff Comments at 6-7, Attch. 1, Col. C, ll. 28-29. In its rebuttal comments, the Company concurred with Staff's adjustment for accounting and attorney fees. Rebuttal Comments at 3. Based upon the record and the agreement of the parties, the Commission finds these agreed adjustments to the test year are reasonable.

B. Disputed Adjustments

1. Wage and Salary Adjustments. In its November 21 comments, Staff recommended the Commission reduce the salary and benefits expenses for an employee who was to be hired on December 10, 2007. Staff also deleted a proposed pay increase of 5.25% that was scheduled to begin on December 18, 2007. These two Staff adjustments would reduce the Company's proposed labor expenses by $31,023.12. Staff Comments at 4.

In its rebuttal comments, the Company asserted that it did actually hire the new employee but at a smaller wage than initially proposed in its Application. The Company also took exception to Staff's proposed 5.25% pay adjustment. The Company indicated that it did increase the salaries of its employees. The 5.25% wage increase results in an increase in the annual salary and expenses of $3,905. The annual match for the 401(k) also increased wage expenses by $98.51. Thus, the Company agreed that a reduction in wages and salary expense was reasonable but only a reduction of $6,665.90. Rebuttal at 1-2. Staff concurred with the Company's adjustment on rebuttal.

<u>Commission Findings</u>: Given the subsequent agreement between the Company and Staff, the Commission finds the Company's labor adjustments in its rebuttal are reasonable. The Company has demonstrated it did hire the new employee and increased the wages of its employees. Consequently, we accept the Company's wages and salary expense adjustments totaling $6,665.90.

2. <u>Office Rental Expense</u>. Staff also recommended the Commission reduce the Company's test year office rental expense by $24,643.50. Staff Comments at 4-5. Although the Company anticipated renting new office space in 2008, Staff alleged the new office is not yet under construction. Staff maintained the time to include the additional rental expense in rates is when the Company actually moves from its current office to the new facilities. Consequently, Staff maintained the new office space is not yet "used and useful." *Id.* at 5.

On rebuttal, the Company urged the Commission to include the increased office rental expense. The Company stated the increased rental expense will allow the utility to consolidate its "office, maintenance and storage functions at one location." Rebuttal at 2. "Construction [of the new building] will begin in the early spring of 2008 and we expect to occupy the facilities by June of 2008. . . ." *Id.* The Company also maintained that the "used and useful" test is normally associated with assets and not expenses.

<u>Commission Findings</u>: Based upon our review of the parties' comments, we find it is appropriate to disallow the proposed increase in office rental expense from the test year. Although we do not question Falls Water's desire to move into its new quarters, we find it inappropriate to allow the increase in rental expense at this time. As the Company conceded,

> <u>the new building has not yet been constructed</u>, the permitting process has begun, land has been acquired by the building owner and lease agreements are in place. <u>Construction has been delayed</u> due to delays in the permitting process and now freezing weather has delayed commencement of construction.

Company Rebuttal at 2 (emphasis added). The Company noted that construction of the building has been delayed but the Company expects to occupy its new facilities in June 2008. At this juncture we find the new rental expense is too speculative to be "known." In other words, the exact occupancy date is not certain. We find it is unreasonable to allow the Company to recover 12 months of rental expense when the facility may be occupied for only 6 months or less.

3. Consulting Services Expense. Staff also removed $24,000 in consulting fees. Staff noted that Falls Water is currently paying $2,000 per month to RDI West for consulting services. Staff recommended the consulting fees be removed for three reasons. First, RDI West is a subsidiary of Frontier Property Group, the previous owner of Falls Water Company. Kelly Howell is not only the president and a director of Frontier Property Group, but he is also a director of Falls Water Company. Staff was concerned about the affiliate/interlocking relationship between Falls Water and RDI West. Staff maintained that the agreement with RDI West for consulting services raises concern about an affiliate transaction and the utility has the burden of showing the consulting services were at reasonable cost. Staff Comments at 5-6.

Second, Staff asserted the consulting services of RDI West appear to duplicate the services provided by the employees of Falls Water. In its production request No. 28, Staff asked for a copy of the consulting contract between RDI West and Falls Water Company. In response, the president of Falls Water provided "terms" of the agreement but did not produce any written contract signed by both parties. *Id.* at 5.

Finally, Staff argued that this expense should "more properly [be] viewed as part of the [prior] sale [of the Company] and it should not be included as an expense for ratemaking purposes." *Id.* at 5. The expenses paid to RDI West benefits the shareholders and should not be paid by the customers. *Id.* at 6.

On rebuttal, the Company took exception to Staff's recommendation to remove the consulting fees from the Company's expenses. The Company conceded that RDI West is a subsidiary of Frontier Property Group (the previous owner of Falls Water Company) and that Mr. Howell is an officer of Frontier Group and a director of Falls Water Company. Rebuttal at 3. Falls Water stated it pays no salary to the directors of the Company "due primarily to cash flow restraints." *Id.* The Company maintained that the services of Mr. Howell through his membership on the board and his past experience in operating the Company 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." *Id.* at 3.

Commission Findings: The Commission finds it is inappropriate to include the consulting fees as a pro forma adjustment to the test year for three reasons. First, the Company has failed to meet its burden of demonstrating the reasonableness of its agreement with RDI West. Mr. Howell is on the Board of Directors for Falls Water and is an officer of Frontier Property Group, the parent of RDI West. As Staff pointed out in its comments, our Supreme Court has ruled that transactions between affiliated companies are to be subject to close scrutiny and the utility has the burden of proving the reasonableness of its affiliated transactions. *General Telephone of the Northwest v. Idaho PUC*, 109 Idaho 942, 712 P.2d 651 (1986); *Boise Water Corporation v. Idaho PUC*, 97 Idaho 832, 555 P.2d 163 (1976). The same standard should apply to transactions between the utility and entities owned or controlled by members of the board. Falls Water's Board of Directors has a fiduciary duty to the Company and a transaction with another company affiliated with a Board member deserves close scrutiny. Under this standard, the Company cannot simply rely on the fact that consulting expenses were incurred.

Second, as part of its audit, Staff asked in production request No. 28 for a copy of the contract between Falls Water and RDI West. In response to this production request, the Company provided no written contract but provided a Consulting Services "Agreement." Staff Comments at 5. A review of this Agreement is instructive. In particular, the Agreement is not dated, does not bear any signature from RDI West, and does not indicate any hourly rate for the consulting services. The Agreement merely states that the consulting fee is $2,000 per month. The Agreement does require RDI West to consult with Falls Water's Board of Directors and management to optimize the water system, assist in the design of the system, train and educate the Board of Directors, and "Spend as Much Time is [sic] Needed by the Board either as a Group or Individually." From the terms of the Agreement, it appears there is some redundancy between the work product under the consulting agreement and the documents provided by the Company's engineering firm, Schiess & Associates.

Finally, we note that Mr. Howell (through RDI West) is paid $2,000 per month for consulting but the officers and directors of Falls Water are not paid salaries "due primarily to cash flow restraints." Rebuttal at 3. From this, it appears the only Falls Water director or officer being paid is Mr. Howell. We concluded Falls Water has not adequately demonstrated that the amount it paid for consulting fees was reasonable and that the fees were necessary in the ordinary course of the Company's business.

RATE BASE

A. Agreed Issues

The Company proposed several rate base adjustments, which were not contested by Staff. First, the Company proposed adding $181,522.80 to rate base, which represents the cost of the new meters added to the system in 2007 and 2008. The Company also proposed to add $152,800, which represents the cost of constructing four separate line-looping projects in 2007. The Company maintained that these projects are necessary to improve system reliability, pressure and quality of service. Finally, the Company and Staff agreed that the Company's working capital should be based on 1/8th of authorized operating expenses. Application at 3, Exh. No. 1; Staff Attch. 2. Based upon the agreement of the parties, we find these rate base adjustments (subject to the operating adjustments decided above) to be reasonable. In particular, the Company indicated that its line-looping projects would improve water pressure in the system. We note that several customers complained in their written comments of poor water pressure.

B. Disputed Issues

As described in greater detail below, Staff recommended three adjustments to the Company's proposed rate base. The Company disputed these adjustments.

1. Well Site No. 9. Staff removed $160,000 from rate base, which represents the cost of purchasing the property for the site for new Well No. 9. Well No. 9 was initially expected to be online by November 2007, but the Company now anticipates it will be placed into service in mid-2008. Staff made this adjustment for two reasons. First, because the well is not currently used and useful and will not be placed into service until the summer of 2008, Staff removed $160,000 from rate base. Staff moved this amount to the "plant held for future use" account. Staff Comments at 7.

Second, the property for Well No. 9 was purchased from Rockwell Development, an affiliate company of Falls Water Company. Staff Comments at 8. Staff noted that transactions between utilities and their affiliates are subject to close scrutiny and Falls Water carries the burden of proving the reasonableness of its affiliated transactions. *Id.* Staff asserted the Company has not satisfactory demonstrated that the price of the lot was reasonable. The utility simply cannot rely upon the fact that expenditures were incurred for transactions with affiliates to be included in rates. *Id.*

2. Water Rights. Staff also recommended the Commission remove $112,500 from rate base which represents the down payment for water rights for Well No. 9. Staff Comments at 7. Staff made this adjustment for two reasons. First, the purchase was not completed by the end of the test year and the well is not yet in service. Staff stated that the well is not expected to come online until the summer of 2008. *Id.* at 8. Staff removed this item from rate base and also transferred this amount to "plant held for future use." *Id.* Staff agreed that when these items are actually being used to provide service to Falls Water's customers then these items would be properly included in rate base.

Second, Staff expressed concern that the purchase of water rights may have been from a company that is affiliated with an officer of Falls Water. Falls Water indicated it entered into an agreement to purchase water rights from Idaho Sod Farm. Although Staff could not find a business name "Idaho Sod Farm," Staff did find a company called Idaho Sod, Inc. Jay Johnson, the vice president of Falls Water, is listed on the annual reports filed with the Secretary of State's office as the vice president of Idaho Sod, Inc. for the years 2003 through 2005. There is no vice president listed on the annual reports filed for calendar years 2006 and 2007. *Id.* at 8.

In its rebuttal, the Company objected to Staff's rate base adjustments and characterized the Staff adjustments as "related and intertwined." Rebuttal at 3. The Company indicated the Staff adjustment for water rights and Well No. 9 ($272,500) have "double counted" the Company rate base investments. Rebuttal at 4. The Company argued that Staff's adjustments removed this amount from rate base as "plant held for future use" and again as a "contribution in aid of construction." *Id.* at 4.

Commission Findings: We address Staff's first two adjustments regarding Well No. 9 together. Based upon our review of the record, we reject the Company's argument. First, the Company does not dispute that Well No. 9 is not currently used to provide services to customers and will not be put into service until mid-2008. Rebuttal at 3-4. As such, the Company's investment in the property and the water rights associated with the well are not used and useful and are appropriately classified as "plant held for future use."

The Commission has adopted a Uniform System of Accounts (USOA) for water utilities. IDAPA 31.12.01.104. More specifically, USOA Account 103 (Plant Held for Future

Use) provides that utilities such as Falls Water "shall include the original cost of property owned and held for future use in utility service under a definite plan for such use." Based upon the definition of Account 103, it appears that the $272,500 costs associated with Well No. 9 were properly classified as plant held for future use because the assets are not currently used and useful. Moreover, it is uncertain when the well will actually be placed into service.

Second, noticeably absent from the Company's rebuttal was any argument addressing Staff's affiliated transaction arguments for Well No. 9 for both the property and water rights. We find there is substantial and competent evidence that the property for Well No. 9 was purchased from an affiliate of Falls Water. For affiliate expense to be justified, the utility needs to provide compelling evidence of arm's length bargaining when incurring costs between the utility and the affiliate. In addition, it appears that the water rights were acquired from a company affiliated with Falls Water's vice president. Because we determine that these rate base items are properly classified as plant held for future use, we do not need to conclusively determine at this point whether the cost for the property and water rights were reasonable. However, at such time as the Company brings the well into service, we expect it to demonstrate to the Commission's satisfaction the reasonableness of its costs for the purchase of the lot and water rights for Well No. 9.

We further find the Company's "double counting" argument is unpersuasive. Staff's accounting adjustments are in compliance with the appropriate accounting standards in the USOA. Account 271 (Contributions in Aid of Construction) provides that this account shall include: "Any amount or item of money, services or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, which represents an addition or transfer to the capital of the utility, and which is utilized to offset the acquisition, improvement or construction costs of the utility's property, facilities or equipment used to provide utility services to the public." The $272,500 representing Well No. 9 costs is appropriately classified as "plant held for future use." The funds used to acquire these assets (the lot for Well No. 9 and the down payment for water rights) come from Account 271 (Contributions in Aid of Construction). Consequently, the Staff has made two accounting adjustments but it does not constitute inappropriate accounting or double counting under the USOA. In essence, the contributions require one accounting entry and plant held for future use requires the second accounting entry. When Well No. 9 comes online, the Company carries the burden of showing the reasonable and prudent costs associated with Well No. 9 should be included in rate base.

3. Contributions in Aid of Construction. The Staff also proposed to remove from rate base $166,100.87 because this amount represents "contributions in aid of construction." Staff explained the Company currently receives contributions in aid of construction in the form of "impact fees" on a per acre basis from subdivision developers as part of Falls Water's line extension agreements. Staff Comments at 7. Contributions in aid of construction (Account 271) offset rate base because developers are "contributing" fees that are used to subsequently acquire new sources of supply and other associated plant items. *Id.* The separate adjustments removing the contributions in aid of construction ($166,100.87), the down payment for water rights ($112,500), and the purchase price for the property for Well No. 9 ($160,000) removes $438,600.87 from rate base. Staff Comments at 7, Staff Attch. 2.

The Company also objected to Staff's impact fee adjustment of $166,100.87 for two reasons. First, Falls Water maintained that it is unique among water utilities because it collects a "contribution in aid of construction [i.e., impact fees] from developers to pay for future sources of supply and storage assets required to meet growth on the system . . . ." Rebuttal at 3. The Company stated the contributed fees are considered "contributions held for future use, [and operate as] an offset to property held for future use." Company Rebuttal at 4. The Company books these contributions as "dedicated funds for future construction of source of supply and storage facilities." *Id.*

Second, Falls Water asserted that Staff's removal of the $166,100.87 from rate base precludes it "from earning a fair, just and reasonable return on investor fees." *Id.* The Company maintained that Staff's accounting approach "artificially suppresses current rates to existing customers and ensures future rate shock to all customers when a new water source or storage asset is placed into service without the benefit of an additional contribution in aid of construction offset." *Id.*

Commission Findings: The Company is correct that the $166,100 impact fee contributions will normally be used to defray the costs of "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." However, the Company is not correct in its statement that these contributions operate as "an offset to property held for future use." These contributions/impact fees represent capital "contributed" by developers "at no cost to the utility." *See supra* definition of Account 271 at page 9. The contributions are not provided by the shareholders so including the contributions in rate base and earning the overall rate of return is not appropriate.

We also reject Falls Water's rebuttal argument that it is precluded from earning a fair return on the $166,100.87. First, these contributions are not investor funds – they are contributed funds. Second, nothing precludes the Company from using its impact fee contributions to earn interest in secure financial investments (CDs, short-term bonds, etc.) until such time as these funds are used to acquire utility plant. Given Falls Water's "unique" ability to obtain contributions in aid of construction in the form of impact fees, we see no reason why these funds could not be used to generate short-term interest income until such time as the contributions are used to acquire rate base assets.

In summary, we find the Company's rate base in this case to be $291,998. Having determined the rate base, we find the Company's total revenue requirement is $916,243.27. This results in an annual revenue increase of $200,060 or approximately a 27.93% increase in its metered rates.

RATE DESIGN

A. Conservation Issues

In its comments, Staff recommended that Falls Water consider instituting a summer-winter differential for the monthly minimum allowance of 12,000 gallons per customer. Staff also recommended that when the Company completes installing meters for all its customers, the Company consider instituting different minimum charges for customers with different meter sizes. Staff Comments at 11. Staff noted that this is a common practice with water utilities especially since most companies have higher fixed charges for larger meters. *Id.* at 12. "Setting the minimum charge as a linear function of the meter size is a reasonable and simple approach." *Id.* Consequently, Staff recommended that these two issues be addressed in the Company's next general rate case.

The Company did not respond to these issues in its rebuttal. We find these are reasonable suggestions and direct the Company to address these issue in its next rate case.

B. Rate Structure

1. Non-Recurring Rates. The Company proposed to increase the connection charge associated with the two larger meter sizes. The Company proposed that the connection charge for its 1.5-inch meter be increased from $825 to $930. The Company also proposed to increase the connection charge for its 2-inch meter from $900 to $1,205. The Company demonstrated in Exhibit 6 that the current rates do not cover the cost of the meter materials (meter, fittings and housing). Staff agreed with these two proposals. Based upon our review of the record, we find the increase in the meter connection charges is reasonable.

2. Recurring Rates. Both the Company and Staff's recommended rate designs for recurring monthly rates are based upon their respective annual revenue requirements. The Company proposed a monthly minimum customer charge of $16.15, which includes 12,000 gallons of water usage. Staff proposed a monthly customer charge of $14.00, which includes 12,000 gallons of water usage. Both the Company and Staff proposed to continue the current flat-rate monthly charge of $20.17 until meters are installed.

Commission Findings: We find the monthly customer charge for metered customers shall be set at $14.00. Setting the monthly charge at $14.00 results in a commodity charge above the 12,000-gallon monthly allowance of $0.667 per 1,000 gallons. We find the monthly minimum charge and the commodity charge to be just and reasonable.

ULTIMATE FINDINGS OF FACT AND CONCLUSIONS OF LAW

Falls Water is a water corporation subject to our regulatory jurisdiction pursuant to *Idaho Code* §§ 61-125 and 61-129. Falls Water is an Idaho corporation and the holder of Certificate of Public Convenience and Necessity No. 236. The Commission has jurisdiction over this matter as authorized by *Idaho Code* §§ 61-502 and 61-622.

Having fully reviewed the record in this proceeding, we find that the Company's existing rates are unreasonable and do not afford sufficient revenue to the Company. We find that it is just and reasonable for the Company to receive a 12.0% return on equity and an overall rate of return of 7.2%. The Company is authorized to increase its annual revenues by $200,060 for a total revenue requirement of $916,243. See the Appendix to this Order.

We conclude that the rates and charges set in this Order are fair, just and reasonable.

ORDER

IT IS HEREBY ORDERED that Falls Water Company's request to increase rates is granted as conditioned and modified in this Order.

IT IS FURTHER ORDERED that the Company submit tariffs in compliance with the rates identified in this Order. The rates and charges authorized by this Order are effective for service rendered on or after January 14, 2008.

IT IS FURTHER ORDERED that the Company address the following issues in its next general rate case: (1) the 12,000-gallon usage allowance under the minimum monthly charge; (2) the implementation of seasonal differentials in the allowance; and (3) whether the minimum monthly charge should be different based upon meter size.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 11th day of January 2008.

MACK A. REDFORD, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

JIM KEMPTON, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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FALLS WATER COMPANY
REVENUES & EXPENSES
TEST YEAR ENDED 12/31/2006
Commission Order No. 30484
Case No. FLS-W-07-01

		A Company Proposed	B Staff Proposed	C Commission Order
1	Ordinary Income/Expense			
2	Income			
3	400 · Operating Revenue			
4	460 · Unmetered Revenue	-		
5	461.1 · Metered Residential	693,756.06	693,756.06	693,756.06
6	461.2 · Commercial Revenue	21,592.19	21,592.19	21,592.19
7	474 · Other Utility Revenue	835.00	835.00	835.00
8	Total 400 · Operating Revenue	716,183.24	716,183.24	716,183.24
9	Total Income	716,183.24	716,183.24	716,183.24
10	Expense			
11	601.5 · Labor Field	181,264.18	172,240.88	185,169.27
12	601.7 · Labor Meter Reading	-	-	-
13	601.8 · Labor Office	59,292.80	56,617.62	59,292.80
14	601.9 · Admin - Labor	128,001.06	112,635.10	117,331.56
15	603 · Salary Officers & Directors	-	-	-
16	604 · Employee Benefits	56,818.27	52,859.60	55,026.78
17	610 · Purchased Water	1,112.00	1,112.00	1,112.00
18	615 · Electrical Power	109,773.11	109,773.11	109,773.11
19	618 · Chemicals	4,816.21	4,816.21	4,816.21
20	620.2 · Source M&S	10,719.97	10,719.97	10,719.97
21	620.6 · Distribution M&S	37,105.71	37,105.71	37,105.71
22	620.7 · Postage	14,293.89	14,293.89	14,293.89
23	620.8 · Office	24,290.04	24,290.04	24,290.04
24	620.81 · Telephone Expense	12,824.06	12,824.06	12,824.06
25	620.82 · Bank service charges	1,731.00	1,731.00	1,731.00
26	620.83 · Office Utilites Expense	4,636.15	4,636.15	4,636.15
27	631.1 · Engineering	1,282.50	1,282.50	1,282.50
28	631.2 · Accounting	3,125.00	2,168.17	2,168.17
29	631.3 · Attorney	7,016.00	2,948.75	2,948.75
30	635 · Testing	8,099.69	8,099.69	8,099.69
31	636.2 · Source Contract Repairs	1,400.00	1,400.00	1,400.00
32	636.3 · Trash	1,017.36	1,017.36	1,017.36
33	636.6 · Distribution Contract Repairs	30,420.00	30,420.00	30,420.00
34	636.7 · Data Processing	3,716.00	3,716.00	3,716.00
35	636.8 · Contract Service - Consulting	24,000.00	-	-
36	641 · Rental of Property	36,511.50	11,868.00	11,868.00
37	642 · Rental of Equipment	20,108.20	20,108.20	20,108.20
38	650 · Transportation Expense	35,013.23	35,013.23	35,013.23
39	656 · Insurance Expense	12,097.00	12,097.00	12,097.00
40	660 · Advertising Expense	2,081.45	2,081.45	2,081.45
41	665 · Regulatory Commission Expenses	4,879.55	4,879.55	4,879.55
42	670 · Bad Debt Expense	8,688.20	8,688.20	8,688.20
43	675.1 · Training Expenses	2,515.27	2,515.27	2,515.27
44	675.2 · Dues & Publications	1,275.00	1,275.00	1,275.00
45	675.4 · DEQ Fee Expense	10,988.00	10,988.00	10,988.00
46	675.9 · Uncategorized Expenses	125.00	125.00	125.00
47	Total Expense	861,037.41	776,346.71	798,813.92
48	Net Ordinary Income	(144,854.16)	(60,163.47)	(82,630.68)
49	Other Expense			
50	403 · Depreciation Expense	73,222.22	73,222.22	73,222.22
51	408 · Taxes			
52	408.11 · Property Taxes	12,121.77	12,121.77	12,121.77
53	409.10 · Fed Income Tax			
54	409.11 · State Income Tax	30.00	30.00	30.00
55	Total 408 · Taxes	12,151.77	12,151.77	12,151.77
56	408.10 · Regulatory Fee	1,780.43	1,780.43	1,780.43
57	Total Other Expense	87,154.42	87,154.42	87,154.42
58	Net Other Income	(87,154.42)	(87,154.42)	(87,154.42)
59	Net Income	(232,008.59)	(147,317.89)	(169,785.10)

FALLS WATER COMPANY
CALCULATION OF RATE BASE
COMMISSION ORDER 30484
CASE NO. FLS-W-07-01

	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	99,794.37		
3	Corrected Total of Utility Plant in Service		2,673,496.24	
4	**Staff adjustment to remove to Plant Held for Future Use (Well 9)**		**272,500.00**	
5			2,400,996.24	
6	Less: Contributions in Aid of Construction	1,512,893.13		
7	Company Correcting Entry to Contributions in Aid of Construction	158,680.44		
8	Company Corrected Total of Contributions in Aid of Construction		1,671,573.57	
9	**Staff adjustment to Contributions in Aid of Construction**		**438,600.87**	
10	Staff Total Contributions in Aid of Construction		2,110,174.44	
11	Subtotal of Investor Owned Assets for Rate Base			290,821.80
12	Less: Accumulated Depreciation	491,076.85		
13	Correcting Entry to Accumulated Depreciation	18,889.34		
14	Corrected Total of Accumulated Depreciation		509,966.19	
15	Less: Accum Amort of Contribution in Aid of Construction	43,633.91		
16	Correcting Entry to Accum Amort of CIAC	33,333.95		
17	Corrected Accum Amort of CIAC		76,967.86	
18	Total Accum Depr net of Accum Amort of CIAC			432,998.33
19	Corrected Net Utility Plant @ 12/31/2006			(142,176.53)
20	Proforma additions to Plant (2007 & 2008 Meter Conversions)			181,522.80
21	Proforma Additions to Plant (Line Loop Extensions)			152,800.00
22	Working Capital (1/8 of Operation and Maintenance Expenses)			99,851.74
23	**Rate Base**			**$ 291,998.01**

Notes

	160,000.00	Land for Well Site No. 9
	112,500.00	Down Payment for water rights for Well Site No. 9
$	**272,500.00**	
	160,000.00	Ciac expended for Land for Well Site No. 9
	112,500.00	Ciac expended for down payment for water rights for Well Site No. 9
	166,100.87	Unexpended Contributions in Aid of Construction
$	**438,600.87**	

FALLS WATER COMPANY
CALCULATION OF REVENUE REQUIREMENT AND PERCENTAGE INCREASE
COMMISSION ORDER 30484
CASE NO. FLS-W-07-01

	(A)	(B)	(C)
1 Rate Base	$ 291,998.01		
2 Required Rate of Return	7.20%		
3 Net Operating Income Requirement	$ 21,032.07		
4 Net Operating Income Realized	$ (169,785.10)		
5 Net Operating Income Deficiency	$ 190,817.17		
		Non-Tax	Taxable
6 Revenue Increase necessary to overcome loss		$ 169,785.10	
7 Revenue Increase Necessary For Income Requirement			$ 21,032.07
8 Gross-up Factor		1.02	1.30
9 Revenue Increase Requirement		$ 172,702.64	$ 27,357.40
10 Total Revenue Increase Required			$ 200,060.03
11 Adjusted Test Year Revenue			716,183.24
12 Total Revenue Requirement			916,243.27
13 Percent Increase Required			27.93%