DONALD L. HOWELL, II
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0312
IDAHO BAR NO. 3366

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5983

Attorney for the Commission Staff

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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-07-1** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Donald L. Howell, II, Deputy Attorney General, and submits the following comments in response to Order No. 30457.

BACKGROUND

On July 27, 2007, Falls Water Company filed a general rate case Application seeking authority to increase its annual revenue by $330,705 and metered rates by approximately 46.2%. Falls Water serves approximately 3,200 customers near Ammon and Idaho Falls. Because the Company is in the process of installing meters for its current flat-rate customers, the Company is not requesting any increase in its flat-rate residential service under Schedule R-2. The Company anticipates that it will have converted all of its existing flat-rate customers to metered service by mid-2008.

The Commission's Order No. 30457 determined that the case be processed via Modified Procedure with a public hearing to be held December 18, 2007 in Idaho Falls. Based upon the Staff's audit, the Staff is recommending an annual revenue increase of approximately $176,900 to $893,127, or an average increase in rates of 24.71%. The accounting and rate adjustments recommended by Staff are discussed in greater detail below.

ACCOUNTING ISSUES

A. Test Year, Adjusted Revenues, Capital Structure, and Overall Rate of Return

The Company proposes using 2006 as its test year. 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. The Company also receives revenue from hook-up fees. In 2006, actual operating revenues totaled $688,123.

The Company proposed a revenue adjustment of $28,060 to eliminate the flat-rate schedule and annualize test year revenues for the year-end customer base. This adjustment also includes a normalization adjustment which is discussed below. Regulatory fee expenses associated with the increase in revenues were also adjusted. Staff accepts this adjustment.

Average water consumption and power-cost-per-customer in 2006 were lower than in any of the previous six years. Staff has reviewed the Company's analysis of power costs and water consumption for those six years and agrees with the Company's use of the six-year average to estimate normalized test year revenue and power costs. The analysis shows that consumption in the test year on a per customer basis was approximately 8.3% lower than the previous six-year average. Applying the increase to the various customer classes results in normalized test year metered consumption and power cost.

The Company proposes a capital structure of 60.01% Long Term Debt and 39.99% Common Equity. The Company proposes to use the actual cost of the long-term debt and a 12% return on common equity. The capital structure proposed, along with the weighted actual cost of debt of 2.4% and 12% return on common equity produces a 7.2% overall rate of return. Staff agrees with the calculation of the capital structure and accepts the return on equity of 12% as being reasonable (Company Exhibit 3). This return on equity is consistent with prior Commission Orders for small water companies.

In summary, Staff accepts the Company requested test year, the adjusted test year revenues, capital structure and the overall rate of return.

B. Expenses

The Company makes adjustments to nine expense categories, as shown on Company Exhibit 2. The Company makes the following expense item adjustments:

1. Pro Form Labor Costs
2. Pro Form Rental Expense
3. Source of Supply Adjustment
4. Administrative Adjustment
5. Contract Services Adjustment
6. Equipment and Vehicle Adjustment
7. Rate Case Expense Adjustment
8. Pro Form Depreciation Expense
9. Property and Irrigation Tax Adjustment.

Based upon its audit, Staff accepts the Company proposed adjustments for source of supply expenses, administrative expenses, equipment and vehicle expenses, rate case expenses, depreciation expense, and the property and irrigation tax expenses (Nos. 3-4, 6-9 above). Staff proposes adjustments to Pro Form Labor Costs (No. 1), Pro Form Rental Expense (No. 2), and the Contract Services Adjustment (No. 5). Staff also makes an adjustment to attorney expenses, Account 631.3. Staff's adjustments are shown on Staff Attachment 1.

1. Staff Labor Cost Adjustment

The Company makes an adjustment for labor costs to reflect wage and salary levels at current pay rates and planned increases to take effect December 2007 and payable in 2008. The Company also includes expenses for a new employee. It is Staff's understanding that the new employee will start in December 2007.

Staff makes an adjustment to labor costs, including employee benefits, to reflect the actual salary of the new employee, and to annualize current labor costs for 2007. The Company proposes to include a payroll increase effective December 18, 2007 which will be reflected in

2008 expenses. Staff has not included this increase as a pro forma adjustment to the 2006 test year.

The test year is a 2006 test year, and pay increases to be paid in 2008 stretches the bound of "known and measurable." In general, known and measurable changes are those that are "known" – for example a signed contract for an event that will take place in the future. By "measurable" the cost of the expense – for example, the amount of the contract price is given, and can be measured.

In this case, the Company has taken various 2006 rate base and expense items and updated these items to reflect incremental changes that occurred in 2007, and Staff agrees with many of these. The projected pay increase has not yet taken place and there is insufficient evidence that the suggested increases will actually occur. For instance, the new employee to begin December 10, 2007 is scheduled to receive a 5% pay increase on December 18, 2007. The starting wage was estimated in the filing and it appears unreasonable to award a pay increase in such a short time. It is more appropriate to reflect the increase after the employee is hired and actual change in salary (if any) is known.

Staff notes that the Company has a greater amount of control over pay issues than it has over other types of expenses. Falls Water controls not only the timing of when pay increases take effect, but also in the amount of the pay increases. The Company does not have this type of control over other expenses, such as water testing, where the Company has limited control over the cost of the testing.

Staff's adjustment to labor costs also reflects the actual salary offered to the new employee. Staff reduced employee benefits by not including the Company matching of the 401(k) program for the new employee. The cost of the matching 401(k) is not known at this time because as the new employee does not start until December 2007. Moreover, it is not known whether the new employee will take advantage of the Company-sponsored 401(k) program.

Staff's adjustment to labor costs and employee benefits reduces the Company proposed expenses by $31,023.12. (Staff Attachment 1, Column C, lines 11, 13, 14, 16).

2. Staff Rental Expense Adjustment

The Company includes the anticipated expenses to rent new office space but the new office has not been constructed. While Staff recognizes the Company's desire for more office space, the Company's adjustment for the lease of a new office, warehouse, and maintenance space is premature. At the time of the on-site audit in late October 2007, construction on the new office and warehouse had not yet begun. Staff notes that the Company has long desired to move to new facilities. The time to include the additional rental expense in rates is when the Company moves from its current office to new facilities. The new office space is not yet "used and useful" to the utility. Staff's adjustment decreases Company requested expenses by $24,643.50. (Staff Attachment 1, Column C, line 36).

3. Staff Contract Services Adjustments

The Company's adjustment to Contract Services includes adjustments to various accounts. Staff accepts most all the various account adjustments, with the exception of the adjustment for the consulting expenses (Account 636.8) and the adjustment to accounting expenses.

Staff removes the consulting fees in its entirety. The Company is currently paying $2,000 per month to RDI West for consulting fees. In its application, the Company includes an additional $4,000 to annualize the amount paid during 2006 ($20,000). The work papers associated with the Application state, "RDI West is the consulting firm hired by the new owners to advise them on owning a water utility. The consulting firm is paid $2,000 per month." Staff evaluated this expense and found it to be more properly viewed as part of the sale and it should not be included as an expense for ratemaking purposes.

RDI West is a subsidiary of Frontier Property Group, Ltd, the previous owner of Falls Water Company. Kelly Howell is not only the president and a director of Frontier Property Group, he is also a director of Falls Water Company, as listed on the annual report filed with the Secretary of State' office of February 15, 2007. Through an internet search, Staff found the following description for RDI West, "The mobile home rental arm of Frontier Property."

In response to Production Request 28, Staff asked for a copy of the contract between RDI West and the owners of Falls Water Company and/or Falls Water Company. In response, Brent Johnson, president of Falls Water Company, provided terms of the agreement, but no written contract. Mr. Johnson also summarized the major benefits that the Board attributes to RDI West.

There are two ratemaking issues for the consulting expense. First, Staff is concerned about the affiliate/interlocking relationship between the Board of Falls Water Company and RDI West. The agreement and transaction with RDI West is an affiliate transaction and the utility has not met its burden of proof showing the consulting services were at a reasonable cost and are not duplicated by information provided by other employees. Second, it appears to Staff that the consultation service of RDI West duplicates what the employees of Falls Water are capable of providing to the new owners. The benefits to the Board provided by RDI West are also duplicated by the work that the Engineering firm, Schiess and Associates, has already provided to Falls Water Company.

Staff finds that this agreement comes as a result of the change in ownership of the Company. The expenses paid to RDI West benefit the shareholders, and as such, constitute a shareholder expense and should not be paid by the customers. Staff's adjustment removes $24,000. (Staff Attachment 1, Column C, line 35).

A. Staff Accounting Adjustments

Staff next makes an adjustment to Accounting expense, Account 631.2. Staff removes the amounts included by the Company related to the change in ownership of the Company. Not only are these costs a one-time cost, and not reflective of ongoing accounting costs, these costs are related to the change in ownership and they directly benefit the shareholders and not the customers. These costs are more appropriately reported below the line, borne by the shareholders, and not paid by customers. Staff's adjustment removes $630.

Staff also proposes to average the accounting costs for tax preparation for the tax years 2005 and 2006. The increase in costs for tax preparation for tax year 2006 over 2005 is $653.66. With the change in ownership came a change in the Company's accounting firm. There was also a change from a C-Corp to an S-Corp. In discussion with Company management, Staff has learned that the Company intended to change accounting firms regardless of the change in ownership.

The new accountant is also an investor in one of the many affiliate companies that the new owners share. While the charges for the new accounting firm are based on the accountant's normal billing rates, Staff notes that the change in ownership requires more tax forms than previously required. The additional accounting cost is associated with the corporate change of ownership and may not reflect the future costs. Staff's adjustment for averaging the tax accounting expenses is $326.83. Staff's entire accounting adjustment reduces expenses by $956.83. (Attachment 1, Column C, line 28).

5. Staff Attorney Fees Adjustment

Staff also adjusts attorney expenses, Account 631.3 to remove the attorney expenses related to the change in ownership of the Company. These expenses are not reflective of on-going expenses, and benefit the shareholders – not the customers. As such, these expenses should be recorded below the line and borne by the shareholders, not paid by the customers. Staff's adjustment removes $4,067.25. (Attachment 1, Column C, line 29).

C. Rate Base

Staff makes two adjustments to the Company rate base calculation. Staff includes all the Contributions in Aid of Construction and removes Plant Held for Future Use. The Company included in rate base only the contributions that have off-setting plant transactions. Currently the Company receives contributions in Aid of Construction in the form of "impact fees" on a per acre basis from developers as part of Falls Water's line extension agreements. The Company uses these dollars to offset the cost of new source of supply and other associated plant items. Although the funds have not been spent on plant items, it is appropriate to include the contributions as they are received both on the books and in the rate base calculation. Staff's adjustment adds $438,600.87 to contributions in aid of construction. (Staff Attachment 2, Column B, line 9). The plant additions will be properly reflected in rate base as the additions are placed into service.

Staff has also removed from rate base the down payment on the water rights and the cost for the purchase of the well site for Well #9. The Well was initially expected to be online by November of 2007. It is now anticipated that it will come on line by the middle of 2008. Because these plant items are not currently used and useful, Staff removes them from rate base. Staff removes $112,500 for the down payment for the water rights and $160,000 for the purchase of the well site. These items are properly included in rate base when Well #9 begins providing water to customers. When the Company requests ratemaking treatment for these two items in the future, the expenditures will then be evaluated for prudency. This adjustment transfers $272,500 from rate base to "Plant Held for Future Use." Staff's calculation of rate base reflects this adjustment as shown on Staff Attachment 2. (Staff Attachment 2, Column B, line 4).

D. Affiliate Transactions

In its analysis and investigation of the Company's Application, Staff found that there may be a potential for financial conflicts of interest and misuse of customer funds through affiliate transactions. Staff notes that Idaho law subjects business transactions between utilities and their affiliates to close scrutiny and the regulated utility carrys the burden of proving the reasonableness of its affiliate transactions. The utility cannot simply rely upon the fact that expenditures were incurred for transactions with affiliates to be included in rates. For affiliate expenses to be justified, the utility needs to provide compelling evidence of arm's length bargaining or costs between the utility and the affiliate.

The potential for conflict arises because the affiliate could inflate expenses charged to the regulated utility. Regulated utilities are allowed to recover their costs incurred in the service of providing an essential service. A utility cannot inflate its expenses in transactions with the affiliate and then request recovery from customers for those inflated expenses.

In Production Request 27, Staff asked for the names of any and all companies owned by the shareholders of Falls Water and/or the President, Vice President and Secretary/Treasurer of Falls Water Company. The Company provided the names of nine companies owned by the President, Vice President and Secretary/Treasurer.

In an examination of the tax return prepared for Falls Water Company for 2006, Staff noted that five people, as shareholders of Falls Water Company, received IRS Form 1065 (Schedule K-1, Partner's Share of Income, deductions, Credits, etc.). Staff checked the Idaho Secretary of State's website, and found several other companies that list at least one of the five shareholders as an owner of the other Company. For example, Falls Water Company entered into an agreement to purchase water rights from Idaho Sod Farm. The purchase was not completed by the end of the test year. Staff could not find a business named "Idaho Sod Farm" on the Secretary of State's website. However, 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, 2004, and 2005. There is no Vice President listed on the annual reports filed for 2006 and 2007.

Falls Water Company also purchased land for the well site for Well #9 from Rockwell Development, an affiliated company. This well and the associated water rights are being financed by a loan from the State Revolving Water Fund and from contributions in aid of construction. The well is expected to come online in the summer of 2008. Staff is also concerned about this future affiliate transaction. This transaction, as well as any other affiliate transactions, shall be more fully scrutinized when they are completed and when Falls Water requests ratemaking treatment in its next general rate case.

Summary

Overall, Staff has found that Falls Water has kept its books in a satisfactory manner. Staff believes the Company has put a great deal of effort into this general rate case filing which has streamlined the review process. The Company has been available to answer Staff's questions, and provide information in a timely and efficient manner.

Other than our concerns about affiliate transactions, Staff finds this Company to be well managed and the water system to be in good condition. Staff finds that the Company is proactive towards providing efficient and reliable water service. The Company personnel are knowledgeable about the water system, conscientious in securing and protecting water rights and plans ahead to provide adequate water facilities but the groundwork for the new source has not been started – there is no engineering report, and there are no funds – and the customers are feeling the adverse effects of a short supply of water, from low pressure to no pressure problems. For the customers of Falls Water Company, this has not been the case.

ENGINEERING ISSUES

Water Usage

Falls Water Company's water usage in 2006 was 1.024 billion gallons with an average use per customer of 336,977 gallons, this is below the prior six-year average of 367,594 gallons and below last year's average of 345,844 gallons. It is too early to tell if this decline is a trend or simply weather related. The 2006 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.

In Commission Order No. 30027, the Commission ordered the Company "to enhance its SCADA software capabilities, to identify and better control its water loss and to improve its delivery efficiency." Although the Company has not yet installed the System Control and Data Acquisition (SCADA) software, it has taken steps to control water loss and improve delivery efficiency. Those steps include a program to detect and repair leaks and an accelerated schedule to meter all its customers. The Company expects to have all customers metered by July 2008.

That is well ahead of the time schedule set out in Commission Order No. 30027, which stated, "We would like to see the meters purchased and installed sooner rather than later, preferably much sooner than six years."

Staff believes that metering will result in a significant reduction in water usage for customers that had been un-metered and will enable the Company to more accurately compute its lost and unaccounted for water quantity. Staff recommends that the Company continue to improve delivery efficiency, through reduced losses and improved monitoring.

Rate Design

Staff's rate design is based on a Staff-adjusted annual revenue requirement of $893,127. Staff is proposing a single commodity rate for all customer classes of $.626/1,000 gallons and a monthly minimum charge of $14.00, which includes 12,000 gallons of water. A comparison of the current rates, Company proposed rates and the Staff proposed rates are shown in the summary table below.

SCHEDULE	**CURRENT TARIFF**		**COMPANY PROPOSED TARIFF**		**STAFF 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	Summer $16.47	$0.73 per 1,000 gallons over 12,000 gallons;	$14.00	$0.626 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	$16.47	$0.73 per 1,000 gallons over 12,000 gallons	$14.00	$0.626 per 1,000 gallons over 12,000 gallons
C-2	$11.53	$0.48 per 1,000 gallons over 12,000 gallons	$16.47	$0.73 per 1,000 gallons over 12,000 gallons	$14.00	$0.626 per 1,000 gallons over 12,000 gallons

The rates proposed by Staff produce the Staff's recommended revenue requirement of $893,127. The Staff-proposed rates also send a price signal to encourage water conservation. The minimum charge in the tariff proposed by Staff provides approximately 60% of required revenue while the excess use commodity charge will provide 40%. This proposed ratio is identical to the ratio included in the Company's proposed rate design. The Company's present tariff structure provided approximately 62% of its revenue from fixed charges and 38% from excess water commodity charges.

As mentioned above, Falls Water is in the process of metering all flat rate customers. As these customers are moved to the metered rates, their bills will change, and the amount of revenue the Company receives from these customers will also change. The Company made an adjustment to account for the proposed change, which projects revenue based on all flat rate customers being on the proposed meter rates.

The Company also made an adjustment to normalize water consumption and revenue. The average water use per customer in 2006 was lower than the average use in the prior six years. Therefore, the Company adjusted revenue up to the six-year average. Staff is supportive of this normalizing adjustment.

In its application, Falls Water requested that the Commission authorize an increase in the new customer connection fee for 1.5 inch meters from the current $825 to $930. The Company also proposed to increase the connection fee for 2-inch meters from the current $900 to $1,205. The Company provided an itemized breakdown of the cost of materials and labor in support of its request. Staff reviewed the proposed increase in new service connection installation costs and found them to be reasonable and within the average of other small water companies. Therefore, Staff agrees with the Company that the increases are just and necessary. Staff recommends the Commission approve the Company's proposed connection fees.

Staff believes there are three other rate design issues that should be addressed in the next rate case. In the Company's last rate case Falls Water proposed a summer/winter differential in the monthly minimum allowance. The Commission stated in its Order in that case (Order No. 30027 at page 10): "We find it also reasonable to defer consideration of the Company's proposed summer/winter differential in allowance levels until such time as the Company's flat rate customers are metered."

The Company has indicated that all customers will be metered prior to the Company's next filing and at that time Falls Water will address the reasonableness of the summer/winter differential. When the conversion is complete, Staff believes it would be an appropriate time to consider increasing the minimum charge for customers with larger meters. This is a common practice with water utilities. Although water utilities may use differing rational to support the increased rate for larger meters, almost all have higher fixed charges for larger meters. The American Water Works Association (AWWA) is supportive of this approach to rate design. Setting the minimum charge as a linear function of the meter size is a reasonable and simple approach. With this method, for example, the monthly minimum charge for a 2-inch meter would be twice as much for a 1-inch meter.

Staff recommends that the following issues be addressed in the next rate filing: 1) the amount of the usage allowance contained in the minimum monthly charge; 2) consideration of any seasonal differential in the allowance; and 3) the minimum charge as a function of meter size.

CUSTOMER RELATIONS

A review of the eleven complaints and three inquiries received by the Consumer Assistance Staff during 2006 and 2007 reveals that the Company is making an effort to maintain good customer relations. The Company has demonstrated that it is willing to work with the customers to prevent disconnections, and make extended payment arrangements to better fit the customer's budget. In more than one instance the Company has continued to make payment arrangements with customers despite previous broken arrangements, and has offered to extend the payment arrangement into the future if the customer is willing to pay even a portion of the past due amount. This is beyond the requirements of the UCRR Rule 313, which states that the Company can refuse to make payment arrangements if the customer had failed in the past to make a payment on the agreed date. The Company has also been willing to provide assistance when problems develop on the customer's side of the meter such as leaking or freezing water lines. IDAPA 31.21.01.313.

As the Company finishes the installation of meters, it has encountered customers who were unaware of how much water they use. When these customers have questioned the high usage reflected on their bills, the Company has taken steps to verify the meters are operating correctly by field-testing the meters to insure accuracy.

Staff recommends that the Company formally track customer complaints and create separate files for these complaints as required in UCRR Rule 403, IDAPA 31.21.01.403. The Rule requirements enable the Company to analyze customer complaints so that proactive steps can be taken to reduce or eliminate similar complaints in the future. These records also allow

Staff to determine what issues have been raised by customers directly with the Company and ensure compliance with the Commission's rules and orders.

RECOMMENDATIONS

1. Staff recommends use of a 2006 test year.
2. Staff recommends a 12% return on equity and an overall return on rate base of 7.2%.
3. Staff recommends accepting the revenue adjustments proposed by the Company to eliminate the flat rate schedule and annualize and normalized test year revenues.
4. Staff recommends a reduction in Labor and Employee Benefits expenses of \$31,023.11 from the Company proposed Labor and Employee Benefits expenses.
5. Staff recommends a reduction in Accounting expenses of \$956.83 from the Company proposed Accounting expenses.
6. Staff recommends a reduction in Attorney expenses of \$4,067.25 from the Company proposed Attorney expenses.
7. Staff recommends a reduction in Contract Service – Consulting expenses of \$24,000 from the Company proposed Contract Service – Consulting expenses.
8. Staff recommends a reduction in Rental of Property expenses of \$24,643.50 from Company proposed Rental of Property expenses.
9. Staff recommends acceptance of the other Company proposed expense adjustments.
10. Staff recommends that all of the Contributions in Aid of Construction be reflected as a reduction to rate base.
11. Staff recommends that the costs included in rate base for Well #9 be removed from rate base and placed in Plant Held for Future Use.
12. Staff recommends that the Commission approve a rate base of \$289,189.61.
13. Staff recommends that the Commission set rates to recover a annual revenue requirement of \$893,126.87. This is an increase of \$176,943.63 over test year revenues and results in an average rate increase of 24.71%.
14. Staff recommends a single commodity rate for all customer classes of \$.626/1,000 gallons and a monthly minimum charge of \$14.00, which includes 12,000 gallons of water.

15. Staff recommends as part of its next general rate filing, that the Company review: 1) the amount of water consumption allowed with the minimum charge; 2) the size and duration of a seasonal rate differential; and 3) the minimum charge as a function of meter size.
16. Staff recommends that the Commission approve the increase in customer connection fees from $825 to $930 for 1-inch meters and from $900 to $1,205 for 2-inch meters.
17. Staff recommends that the Company formally track customer complaints and create separate files for these complaints as required in UCRR Rule 403.

Respectfully submitted this 21st day of November 2007.

Donald L. Howell, II
Deputy Attorney General

Technical Staff: Kathy Stockton
Dave Schunke
Dan Graves
Chris Hecht

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

		A Per Books 2006	B Company Adjusted	C Staff Adjustments	D Staff Proposed
1	**Ordinary Income/Expense**				
2	**Income**				
3	**400 · Operating Revenue**				
4	**460 · Unmetered Revenue**	116,570.61	-	-	
5	**461.1 · Metered Residential**	551,296.26	693,756.06	-	
6	**461.2 · Commercial Revenue**	19,421.02	21,592.19	-	
7	**474 · Other Utility Revenue**	835.00	835.00	-	
8	**Total 400 · Operating Revenue**	688,122.89	716,183.24	-	
9	**Total Income**	688,122.89	716,183.24	-	716,183.24
10	**Expense**				
11	**601.5 · Labor Field**	108,518.03	181,264.18	(9,023.30)	172,240.88
12	**601.7 · Labor Meter Reading**	8,045.67	-	-	-
13	**601.8 · Labor Office**	47,765.09	59,292.80	(2,675.18)	56,617.62
14	**601.9 · Admin - Labor**	56,313.52	128,001.06	(15,365.96)	112,635.10
15	**603 · Salary Officers & Directors**	2,304.00	-	-	-
16	**604 · Employee Benefits**	33,807.48	56,818.27	(3,958.67)	52,859.60
17	**610 · Purchased Water**	1,112.00	1,112.00	-	1,112.00
18	**615 · Electrical Power**	89,380.23	109,773.11	-	109,773.11
19	**618 · Chemicals**	3,215.44	4,816.21	-	4,816.21
20	**620.2 · Source M&S**	6,387.84	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**	12,416.05	14,293.89	-	14,293.89
23	**620.8 · Office**	16,748.29	24,290.04	-	24,290.04
24	**620.81 · Telephone Expense**	13,170.66	12,824.06	-	12,824.06
25	**620.82 · Bank service charges**	1,667.09	1,731.00	-	1,731.00
26	**620.83 · Office Utilites Expense**	2,931.41	4,636.15	-	4,636.15
27	**631.1 · Engineering**	1,282.50	1,282.50	-	1,282.50
28	**631.2 · Accounting**	2,471.34	3,125.00	(956.83)	2,168.17
29	**631.3 · Attorney**	7,016.00	7,016.00	(4,067.25)	2,948.75
30	**635 · Testing**	4,465.00	8,099.69	-	8,099.69
31	**636.2 · Source Contract Repairs**	-	1,400.00	-	1,400.00
32	**636.3 · Trash**	659.88	1,017.36	-	1,017.36
33	**636.6 · Distribution Contract Repairs**	10,615.25	30,420.00	-	30,420.00
34	**636.7 · Data Processing**	3,444.00	3,716.00	-	3,716.00
35	**636.8 · Contract Service - Consulting**	20,000.00	24,000.00	(24,000.00)	-
36	**641 · Rental of Property**	11,868.00	36,511.50	(24,643.50)	11,868.00
37	**642 · Rental of Equipment**	13,762.50	20,108.20	-	20,108.20
38	**650 · Transportation Expense**	27,371.54	35,013.23	-	35,013.23
39	**656 · Insurance Expense**	10,633.00	12,097.00	-	12,097.00
40	**660 · Advertising Expense**	2,081.45	2,081.45	-	2,081.45
41	**665 · Regulatory Commission Expenses**	1,679.55	4,879.55	-	4,879.55
42	**670 · Bad Debt Expense**	8,387.22	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**	962.75	1,275.00	-	1,275.00
45	**675.4 · DEQ Fee Expense**	11,986.34	10,988.00	-	10,988.00
46	**675.9 · Uncategorized Expenses**	-	125.00	-	125.00
47	**Total Expense**	582,090.10	861,037.41	(84,690.70)	776,346.71
48	**Net Ordinary Income**	106,032.79	(144,854.16)	-	(60,163.47)
49	**Other Expense**				
50	**403 · Depreciation Expense**	47,537.64	73,222.22	-	73,222.22
51	**408 · Taxes**				
52	**408.11 · Property Taxes**	6,598.40	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**	6,598.40	12,151.77	-	12,151.77
56	**408.10 · Regulatory Fee**	1,611.86	1,780.43	-	1,780.43
57	**Total Other Expense**	55,747.90	87,154.42	-	87,154.42
58	**Net Other Income**	(55,747.90)	(87,154.42)	-	(87,154.42)
59	**Net Income**	$ 50,284.89	(232,008.59)		(147,317.89)

Attachment 1
Case No. FLS-W-07-1
Staff Comments
11/21/07

FALLS WATER COMPANY
CALCULATION OF RATE BASE

	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)			97,043.34
23	**Rate Base**			**$ 289,189.61**

Attachment 2
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