

FALLS WATER COMPANY

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February 19, 2010

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IDAHO PUBLIC
UTILITIES COMMISSION

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

Enclosed are eight (8) copies of the Company's reply to the Staff's Comments for case no. FLS-W-09-1. Original signature pages will follow in the mail. Electronic version of the Excel files referenced in the response and a pdf file of the reply comments were e-mailed to your office.

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

Thank you,

K. Scott Bruce
General Manager
Falls Water Company, Inc.

Enclosures

K. Scott Bruce
Falls Water Company, Inc.
2180 N. Deborah Dr
Idaho Falls, ID 83401
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Representative for Falls Water Co., Inc.

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2010 FEB 19 PM 3:51
IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)	
FALLS WATER COMPANY FOR AN ORDER)	CASE NO. FLS-W-09-1
AUTHORIZING INCREASES IN THE COMPANY'S)	
RATES AND CHARGES FOR WATER SERVICE)	COMPANY'S REPLY TO
)	COMMENTS OF THE
)	COMMISSION STAFF
)	
)	

Comes now Falls Water Company and files the following reply to comments of the Commission Staff dated February 11, 2010.

OPERATING EXPENSES

Rental Expense, Staff Adjustment (Staff Attachment No. A line 34).

On pages 6 and 7 of the Staff Comments, the Staff adjusted the property rental expense for the Company's office/warehouse lease to include only the base rent and base additional rent of the initial year of the current lease agreement. Staff fails to explain its rationale for why the escalators are unacceptable.

The Company's previous office space lease, which was not with an affiliated company, had escalators in it. The original lease agreement was for two years 2004 and 2005. A single year lease was entered into for 2006. Another single year lease was entered into for 2007. 2008 was month to month using the prior leases rental fees.

The Company's previous monthly lease payments to DASH Building, for the lease at 1770 Sabin Drive Idaho Falls, Idaho were as follows:

	2004	2005	2006	2007	2008
Monthly Rent	\$881.00	\$920.00	\$970.00	\$990.00	\$990.00
% Change in Monthly Rent		4.43%	5.43%	2.06%	0.00%

The Company's current lease for 2180 North Deborah Drive Idaho Falls, Idaho, is a four year lease. A schedule of the monthly rental payments factoring in the annual escalations in the lease are shown below:

	2009	2010	2011	2012
Monthly Rent	\$2,700.00	\$2,800.00	\$2,900.00	\$3,000.00
Utilities/Operating Costs	\$ 610.00	\$ 671.00	\$ 738.10	\$ 811.91
Total Rent Payment	\$3,310.00	\$3,471.00	\$3,638.10	\$3,811.91
% Change in Monthly Rent		4.86%	4.81%	4.78%

The escalation percentage of the current office/warehouse lease is comparable to the escalation percentage of the former office space lease. All of the former rental agreement for the Company's office at 1770 Sabin Drive was included in the rates for recovery from customers. Therefore, the company submits that its current office/warehouse lease, including the escalators, is reasonable and should be included in the rates that it recovers from its customers.

The Company requests the office and warehouse rent costs included for recovery from customers is \$43,684 for Office Rent Costs. Company's adjustment is an increase in expenses of \$3,964, as shown on Exhibit 11, line 34.

Electric Power Costs

Company concurs with Staff's assessment of the Company's power cost adjustment.

Water testing Cost Adjustment

Company concurs with Staff's adjustment of its water testing costs.

RATE BASE

Staff proposes a rate base of \$1,442,759. The Company takes exception to the Staff's rate base adjustments as discussed below. Revisions to rate base and revenue requirements will be addressed following the discussion of the adjustments.

Staff Adjustment to Engineering Consulting Fees from Staff Comments pages 11 and 12

Staff's adjustment is based on its belief that the tasks performed by Schiess and Associates and East-Central Idaho Planning & Development Association (ECIPDA) during the bid processes for Well No. 9 were duplication of effort.

Schiess & Associates and ECIPDA's efforts in the bid process for Well No. 9 may appear to duplicate efforts in their scopes of work, but they are performing different tasks pertaining to the engineering or technical support of the bid process on the one hand and the administrative support during the bidding phase on the other hand. Exhibit 10 is a letter from William Teuscher of the Department of Environmental Quality (DEQ), the funding agency for the Well No. 9 project, which explains the separation of tasks.

DEQ understands that the engineer and ECIPDA did not duplicate effort. As the funding agency, DEQ would not have approved disbursement of loan monies to pay the charges if they felt that the two companies were duplicating tasks.

Company feels that ECIPDA did not provide duplication of similar service already provided by Schiess & Associates, but rather each company provided specific services during the bid process and worked in concert with each other to ensure that the bid process met all of the requirements set out by the funding agency, DEQ. Company proposes that the cost of \$8,000 paid to ECIPDA be included in the rate base as shown on Exhibit 12, line 2. The adjustment also requires an increase to depreciation expense of \$273.87 as shown on Exhibit 11, line 51.

Staff Adjustment to Land Acquisition Cost from Staff Comments pages 12 and 13

Staff in its comments beginning at page 12 discusses the \$160,000 land acquisition costs associated with Well No. 9. Staff determined that the cost was reasonable. However, Staff eliminated one-half the purchase price of \$80,000 from rate base as plant held for future use. Staff's rationale was that the property was acquired for the dual purpose of constructing both a well and a storage reservoir. Staff determined that although the well has been completed, the reservoir has not and one-half the purchase price represents an investment that is not used and

useful. Applicant takes exception to the elimination of this investment from rate base without an equal and commensurate adjustment to Applicants Contributions in aid of construction account. This property was purchased using funds contributed to the Company by third party property developers.

In Case No. FLS-W-07-01 Applicant in its reply to Staff comments addressed the issue of these contributions as follows:

“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.” (Reply Comments at Page 3&4)

The Commission in its findings in Order No. 30484 beginning at Page 9 addressed the Company’s arguments as follows:

“We further find the Company’s “double counting” argument is unpersuasive. Staffs 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.” (emphasis added) 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.” (Order 30484 at Page 9)

The Commission’s own quote from the Uniform System of Accounts (USOA) (identified above with the added emphasis) qualifies the definition of a contribution to be related to an asset “...used to provide utility services to the public.” Obviously, if an asset is considered to be plant held for future use, not used and useful to provide utility service, the contribution used for the purchase of such asset should also be considered “held for future use” and not used to dilute the Company’s investment in “used and useful” assets.

The Commission’s Order No. 30484 went on to state:

“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.” (Order No. 30484 at Page 10)

The Commission’s order recognizes that these impact fees (contributions) will be used to defray the cost of future development of source of supply and storage facilities. The language in the order sounds as though the Commission thought applicant was seeking an opportunity to earn a return on the value of the contributions. Indeed what applicant was seeking was an opportunity to earn a return on the real assets used and useful in providing service to customers, undiluted by contributions reserved for the future acquisition of assets required to meet future customer requirements.

The Commission’s order was silent regarding applicants argument that Staff’s recommendations artificially suppress current rates and ensure future rate shock. In the interest of clarifying the effect of Staff’s recommendation to eliminate the value of an asset held for future use without a commensurate elimination of the contributions used to acquire the asset, Applicant attaches Exhibit No. 14 to these reply comments. That exhibit is a simplified hypothetical example of the effect on the Company over a 4 year period. The Exhibit shows that the Company’s revenues, and therefore earnings, are suppressed for several years until such time as an asset is constructed utilizing the contributed funds. The first several years, Customers bills are artificially reduced while contributions are collected then a large increase is required once the new asset is placed in service. The income lost by the Company during the period is gone forever and cannot be recovered. This obviously demonstrates a regulatory taking of the Company’s property.

Falls Water proposes that the Commission recognize that Contributions received by the Company for future construction of source of supply property and equipment should not be used to reduce the value of existing used and useful plant in service. Applicant further proposes that contributed funds received by the Company for future construction will be placed in a separate bank saving account and interest earned on the funds be recognized as additional contributions to benefit customers when new source of supply plant is constructed using the funds.

Revised Revenue Requirement Based on Adjustments to Operations Expenses and Rate Base

Company's adjustments to increase rental property expense \$3,964.04 (shown on Exhibit 11, line 34) and to increase depreciation expense \$273.87 (shown on Exhibit 11, line 51) increase the net loss resulting from operations from Staff's comments of (\$3,070.52) to (\$7,308.42) as shown on Exhibit 11, line 64.

Company's calculation of rate base includes an adjustment to increase Plant in Service account 304 – Well Structures & Improvements for \$8,000 (shown on Exhibit 12, line 2); an adjustment to increase Accumulated Depreciation of \$133.33 (shown on Exhibit 12, line 14); an adjustment to decrease Gross Contributions in Aid of Construction to offset Staff's deduction of ½ the purchase price of Well No. 9 lot, which was purchased with CIAC funds, of \$80,000 (shown on Exhibit 12, line 18); and an increase in working capital of \$459.51 (shown on Exhibit 12, line 21), resulting in a proposed rate base of \$1,531,120.82 (shown on Exhibit 12, line 22).

Company proposes a revenue requirement of \$1,103,568.19 as shown on the calculation of revenue requirement Exhibit 13, line 15.

RATE DESIGN

Company recognizes the rational of Staff's rate design based on meter size. However, concerns have surfaced about hidden costs to the company and its customers should the meter size rate design be accepted.

A number of the residential customers, who installed 1" meters years ago, did so at the time because it saved them money in the long run. By installing a larger meter, they would be able to save money on the installation of their lawn irrigation system by having to install fewer sprinkler zones. These customers may have chosen not to have a larger meter installed if they proposed rate design had been in place at the time they constructed their home or chose to install a larger meter.

Some of the residential customers who have meters larger than the standard ¾" meter may request that their larger meter be replaced with a standard ¾" meter. The company incurs the cost of a new meter in addition to the old meter being put in inventory. There will also be costs for

retrofitting the meter pit connections to accommodate the installation of the smaller meter. Five residential customers have 1 ½” meters installed currently. At least three of these customers do not have need for the excess flow available with the larger meter and may make this request. Seventy-four residential customers have 1” meters and could request to have the meter size changed. The question is also raised as to how this would affect the connection fees paid to the company by the customers. Will refunds be due the customer? Will any part of the costs for changing out the meter be the responsibility of the customer? Is it necessary for the Company to change the meter size upon the customer’s request? The Company would ask the Commission to consider the above concerns and should the new rate design be approved, the Company asks for direction on how to respond to the customer request to downsize the meter.

The Company noted in the Staff’s proposed rate design that the minimum volumes included in the minimum charges for each meter size were not rounded to the nearest thousand gallons. The meters in the system all read in thousands of gallons not hundreds of gallons. The minimum volume included with a minimum charge should be listed in thousands of gallons.

The Company currently has only 3.89% of its meters that are larger than ¾”. That is 145 meters total that are larger than ¾”. The Company’s analysis of the Staff’s proposed rate design change has been limited by the short response time to prepare its reply. The response time has been limited to four days because of the long holiday weekend for Presidents Day, February 15, 2010. The Company requests that any change in rate design be deferred until a future rate case to allow the Company an opportunity to properly analyze the impacts of the proposed rate design on its customers and itself.

Other Water System Operational Issues

The Company concurs with Staff’s comments regarding its water system operation issues.

Returned Check Charges

Company concurs with Staff’s comments. Company plans to discontinue use of the outside collection agency currently used to collect returned checks once the Commission’s final order is released.

Late Payment Charge

Company concurs with Staff's comments. Company currently uses a third party service to print and mail its monthly billings. The Company will bill the late payment charges as it prepares the billings file that is sent to its third party printer.

Company Documentation

Company concurs with Staff comments and will correct its documents and policies to conform to the UCRR.

The Company has always had staff available to turn water service on after 7:00 pm. In cases of medical emergency or accidental disconnection, Company's staff has gone out to turn on water even if the time is after 7:00 pm. In all cases water service has been restored within the twenty-four (24) hours after the utility's conditions are satisfied for which services were terminated.

Respectfully submitted this 19th Day of February 2010.



Falls Water Company

K. Scott Bruce, General Manager

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UTILITIES COMMISSION



STATE OF IDAHO
DEPARTMENT OF
ENVIRONMENTAL QUALITY

900 North Skyline Drive, Suite B • Idaho Falls, Idaho 83402 • (208) 528-2650

C.L. "Butch" Otter, Governor
Toni Hardesty, Director

February 16, 2010

Scott Bruce
Falls Water Company
1770 Sabin Dr.
Idaho Falls, ID 83406

Re: Falls Water Company: Consultants Contractual Clarification (SRF) # DW 9913)

Dear Mr. Bruce

The Department of Environmental Quality (DEQ) has provided the following to help alleviate any concern for the two consultants' contracted work and tasks pertaining to the bidding tasks each provided for the project. It might appear to be duplicated scopes of work, however they are actually different tasks provided pertaining to the engineering or technical support during the bidding process and the other task of administrative support during the bidding phase. The following is a break down of typical tasks provided during a project by the Engineer and the Administrator.

Task 1 Provide bid documents:

The Engineer (Shiess Associates) prepares bid documents and the plans and technical specifications. Engineer prepares invitation to bid, bid schedule and construction contracts, Bid Bond and Performance Bond forms. This task is technical in nature.

Project Administrator (ECIPDA) prepares the funding agency specification inserts and makes sure that the DEQ requirements are inserted and all other funding requirements are established. They are usually responsible for seeing that the Certificate of segregated facilities, WBE/MBE, Subcontractors forms and Certificate Regarding Lobbying forms are inserted into the solicitation for bids. All MBE / WBE and Civil rights goals are listed in the specification documents along with any wage determinations or rates. This task is administrative in nature.

Task 2 Answer contractor questions:

The Engineer answers phone calls regarding questions from contractor or suppliers that are technical in nature that are directed to the plans and technical specifications.

The Administrator answers phone calls regarding questions from contractor or suppliers or others that pertain to regulator requirements particularly Contractor licensing requirements, funding, project budget, MBE/WBE and disadvantage business goals and requirements and other labor laws such as Equal Opportunity Employment opportunities for the projects.

Task 3: Issue and coordinate addendums

The Engineer will issue any addendums required pertaining to the technical specifications and plans.

The Administrator will coordinate with the funding agency and the engineer and provide information to the engineer to include agency requirement modifications to be included in any addendum.

Task 4: Evaluate bids & prepare recommendations

The Engineer will evaluate the bids based on price and completeness pertaining to each item of work identified in the actual bid schedule. The engineer will verify that all bid bonds and performance bonds are properly submitted with correct dates and signature and will verify the authenticity of the bonds submitted. The will evaluate the bid for correctness and that all amounts bid for each item are added correctly. The engineer then coordinates with the administrator and the issues recommendation to the City for award of contracts.

The Administrator will evaluate all agency forms required to be submitted at the time of bid which are not technical in nature, but pertains to regulator funding requirements. The will check the Contractors Debarred List of the apparent low bidder to assure that they have not been debarred from working on such projects and contracts. They will also check to see that the contractor has the appropriate public works license to perform the work. The will also verify that all subcontractors have been identified by law and that the proper subcontractor form work is provided at the time of bid. The administrator will seek the approval of DEQ or the regulator agencies approval of the award of contract.

Task 5: Prepare contracts, Notice of Awards and other agency forms

The Engineer will prepare and issue Notice of Award to the contractor and make sure all contracts are sent to the contractor for signature and will verify that all bonds are in place and that they are dated properly according to dates reflecting the payment and performance bond. They then pass contracts on to the City for signature and prepare the Notice to Proceed.

The Administrator takes signed contracts and sends to the funding or regulator agency for their concurrence and signature and approval of the contracts before the Notice to Proceed can be executed. Administrator prepares all agency forms required for all subcontractors to issue at the preconstruction conference for subcontractor to execute.

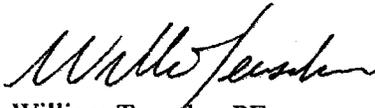
Task 6: Pre Bid Meetings and Preconstruction Meetings

The Engineer will meet with the owner to make recommendation to award and then again to have contracts signed. Then the engineer will meet with all parties for the preconstruction conference to review contractual obligations for all parties and work to be performed. The line of authority is established for each party with all key personnel identified. The Notice to Proceed is issued.

The Administrator will address all labor requirements and forms needing to be submitted after the bid by contractors for MBE/WBE and disadvantage business requirements and see that all EEO requirements are addressed and meet by the contractor. Administrator will meet with all parties at the per construction conference to go over these items. The administrator will also coordinate the times for the monthly pay requests and will coordinate with the engineer with all pay requests submitted to the owner and agencies.

DEQ feels that there are separate and distinct tasks that each consultant provides during the bid phase of the project and that there is no duplication in effort. If you have any questions regarding this letter or if we can be of further assistance, please call me at (208) 528-2650

Sincerely,



William Teuscher PE
Water Quality Engineer
Idaho Falls Regional Office

FALLS WATER CO., INC.
Proforma Results of Operations

	A	B	C
	Staff	Company	Company
	Pro forma	Adjustments	Pro forma
Ordinary Income/Expense			
Income			
400 · Operating Revenue			
1 460 · Unmetered Revenue	\$ 22,947.31		\$ 22,947.31
2 461.1 · Metered Residential	\$ 939,230.56		\$ 939,230.56
3 461.2 · Commercial Revenue	\$ 32,074.68		\$ 32,074.68
4 474 · Other Utility Revenue	\$ 2,790.00		\$ 2,790.00
5 Total 400 · Operating Revenue	<u>\$ 997,042.55</u>		<u>\$ 997,042.55</u>
6 414 · Gain (Loss) on Property	\$ -		\$ -
7 Total Income	<u>\$ 997,042.55</u>		<u>\$ 997,042.55</u>
8 Expense			
9 601.5 · Labor Field	\$ 173,620.31		\$ 173,620.31
10 601.7 · Labor Meter Reading	\$ 3,707.25		\$ 3,707.25
11 601.8 · Labor Office	\$ 55,227.60		\$ 55,227.60
12 601.9 · Admin - Labor	\$ 109,600.08		\$ 109,600.08
13 604 · Employee Benefits	\$ 72,801.22		\$ 72,801.22
14 610 · Purchased Water	\$ 1,112.00		\$ 1,112.00
15 615 · Electrical Power	\$ 126,621.61		\$ 126,621.61
16 618 · Chemicals	\$ 7,432.72		\$ 7,432.72
17 620.2 · Source M&S	\$ 17,920.77		\$ 17,920.77
18 620.6 · Distribution M&S	\$ 63,677.49		\$ 63,677.49
19 620.7 · Postage	\$ 17,055.60		\$ 17,055.60
20 620.8 · Office	\$ 31,644.03		\$ 31,644.03
21 620.81 · Telephone Expense	\$ 12,960.01		\$ 12,960.01
22 620.82 · Bank service charges	\$ 3,829.01		\$ 3,829.01
23 620.83 · Office Utilities Expense	\$ 2,340.79		\$ 2,340.79
24 631.1 · Engineering	\$ 1,620.00		\$ 1,620.00
25 631.2 · Accounting	\$ 2,785.00		\$ 2,785.00
26 631.4 · Payroll Services	\$ 3,340.50		\$ 3,340.50
27 635 · Testing	\$ 3,995.00		\$ 3,995.00
28 636.2 · Source Contract Repairs	\$ 839.58		\$ 839.58
29 636.3 · Trash	\$ 1,039.57		\$ 1,039.57
30 636.4 · Outsourced Bad Debt Collection	\$ 269.79		\$ 269.79
31 636.6 · Distribution Contract Repairs	\$ 28,055.57		\$ 28,055.57
32 636.7 · Data Processing	\$ 4,227.50		\$ 4,227.50
33 636.8 · Contract Service - Consulting	\$ -		\$ -
34 641 · Rental of Property	\$ 39,720.00	\$ 3,964.04	\$ 43,684.04
35 642 · Rental of Equipment	\$ 20,700.60		\$ 20,700.60
36 650 · Transportation Expense	\$ 32,985.78		\$ 32,985.78
37 656 · Insurance Expense	\$ 15,318.00		\$ 15,318.00
38 656.1 · Workers Compensation Ins	\$ 10,222.20		\$ 10,222.20
39 660 · Advertising Expense	\$ 3,521.82		\$ 3,521.82
40 666 · Rate Case Amort	\$ 510.00		\$ 510.00
41 670 · Bad Debt Expense	\$ 13,612.33		\$ 13,612.33
42 675.2 · Dues & Publications	\$ 968.00		\$ 968.00
43 675.4 · IDHW Fee Expense	\$ 10,987.97		\$ 10,987.97
44 Total Expense	<u>\$ 894,269.69</u>		<u>\$ 898,233.73</u>
45 Net Ordinary Income	102,772.86		98,808.82
46 Other Income/Expense			
47 Other Income			
48 421 · Non-Utility Income	\$ 4,800.00		\$ 4,800.00
49 Total Other Income	<u>\$ 4,800.00</u>		<u>\$ 4,800.00</u>
50 Other Expense			
51 403 · Depreciation Expense	\$ 64,353.91	\$ 273.87	\$ 64,627.78
52 408 · Taxes			
53 408.11 · Property Taxes	\$ 16,766.01		\$ 16,766.01
54 408.12 · Payroll Taxes	\$ 29,503.46		\$ 29,503.46
55 409.10 · Fed Income Tax	\$ -		\$ -
56 409.11 · State Income Tax	\$ 20.00		\$ 20.00
57 Total 408 · Taxes	<u>\$ 46,289.47</u>		<u>\$ 46,289.47</u>
58 408.10 · Regulatory Fee			
59 426 · Misc. Non-Utility Expenses			
60 426.1 · Donations - Tax Deductible			
61			
62 Total Other Expense	<u>110,643.38</u>		<u>110,917.25</u>
63 Net Other Income	<u>(105,843.38)</u>		<u>(106,117.25)</u>
64 Net Income	<u>(3,070.52)</u>		<u>(7,308.42)</u>

FALLS WATER CO., INC.

Calculation of Rate Base

	A	B	C
	Staff	Company	Company
	Pro Forma	Pro Forma	Pro Forma
	Rate Base	Adjustments	Rate Base
	Total		
Plant in Service			
1 303 - Land & Land Rights	1896347.65		\$ 1,896,347.65
2 304 - Well Structures & Improvements	478931.5	\$ 8,000.00	\$ 486,931.50
3 307 - Wells	403240.68		\$ 403,240.68
4 310 - Generators	16693.04		\$ 16,693.04
5 311 - Pumps & Accessories	398448.07		\$ 398,448.07
6 320 - Separators	23625.85		\$ 23,625.85
7 331 - Water Mains	906136.08		\$ 906,136.08
8 334 - Meters	955683.35		\$ 955,683.35
9 335 - Hydrants	50370.81		\$ 50,370.81
10 340 - Office Equipment	36260.44		\$ 36,260.44
11 341 - Transportation Equipment	60606.64		\$ 60,606.64
12 343 - Tools & Equipment	24049.05		\$ 24,049.05
13 Total Plant in Service	\$ 5,250,393.16	\$ 8,000.00	\$ 5,258,393.16
14 Less Accumulated Depreciation	722,058.58		\$ 722,191.91
15 Net Plant in Service	\$ 4,528,334.58	\$ 133.33	\$ 4,536,201.25
Less Contributions in Aid of Construction			
16 Gross Contributions (12/31/2008)	\$ 3,397,236.77		\$ 3,397,236.77
17 Less Accumulated Amortization	\$ (199,877.13)		\$ (199,877.13)
18 Less CIAC Used to buy Land held as Plant Held for Future Use	\$ -	\$ (80,000.00)	\$ (80,000.00)
19 Net Contributions in Aid of Construction	\$ 3,197,359.64		\$ 3,117,359.64
20 Net Plant in Service	\$ 1,330,974.94		\$ 1,418,841.61
21 Working Capital (1/8 of Operation and Maintenance Expense)	\$ 111,783.71	\$ 495.51	\$ 112,279.22
22 Rate Base	\$ 1,442,758.65		\$ 1,531,120.82

FALLS WATER CO., INC.
CALCULATION OF REVENUE REQUIREMENT

	(A)	(B)	(C)
1 Rate Base	\$ 1,531,120.82		
2 Rate of Return	4.74%		
3 Net Operating Income Requirement	<u>\$ 72,624.88</u>		
4 Net Operating Income Realized	<u>(7,308.42)</u>		
5 Net Operating Income Deficiency	\$ 79,933.30		
Revenue Requirement Increase		Non-Tax	Taxable
6 Overcome Loss		\$ 7,308.42	
7 Subject to Income Tax			\$ 72,624.88
8 Gross-up Factor		<u>102%</u>	<u>129.81%</u>
9 Revenue Increase Requirement		<u>\$ 7,451.15</u>	<u>\$ 94,274.48</u>
10 Total Revenue Increase Required			\$ 101,725.64
11 Operating Revenue			\$ 997,042.55
12 Other Revenue (Rental Income)			<u>\$ 4,800.00</u>
13 Adjusted Test Year Revenue			1,001,842.55
14 Percent Increase Required			10.15%
15 Total Revenue Requirement			\$ 1,103,568.19
16 Revenue for Rate Design			\$ 1,098,768.19

Net to Gross Multiplier

Net Deficiency	100%
Less Bad Debts (percentage of Gross Revenue)	1.3653%
Less PUC Fees (percentage of Gross Revenue)	0.1662%
Less Bank Service Charge Fees (percentage of Gross Revenue)	<u>0.3840%</u>
Taxable Amount	98.0845%
State Income Tax Rate @ 7.6%	<u>7.4544%</u>
Federal Taxable	90.6301%
Federal Income Tax Rate @ 15%	<u>13.5945%</u>
Net After Tax	77.0356%
Net Income to Gross Revenue Multiplier	129.81%
Gross-up Factor to overcome loss	102%

Falls Water Company
Simplified Example of Lost Income
Due to Commission Treatment of Contributions Held for Future Construction Projects

Assume Company is 100% Equity

Assume Equity and Investment in Rate Base are Equal.

Assume that each year depreciation is used to replace aging plant.

Assume Gross-up is 128%

			Revenue Requirement	Percent Change From Prior Year	Percent Change From Beginning	Accumulated Lost Income to Co.
1	Beginning Equity and rate base are Equal @	\$ 1,500,000				
2	Return Required at 12%	\$ 180,000	\$ 230,400	Beginning	Beginning	
Co. Collects contributions for futue well						
3	Year 1 Contribution	\$ 50,000				
4	Rate Base Becomes	\$ 1,450,000				
5	Return Required at 12%	\$ 174,000	\$ 222,720	-3.33%	-3.33%	
6	Reduction in authorized return	\$ 6,000				\$ 6,000
7	Year 2 contribution	\$ 50,000				
8	Rate Base Becomes	\$ 1,400,000				
9	Return Required at 12%	\$ 168,000	\$ 215,040	-3.45%	-6.67%	
10	Reduction in authorized return	\$ 12,000				\$ 18,000
11	Year 3 Contribution	\$ 50,000				
12	Rate Base Becomes	\$ 1,350,000				
13	Return Required at 12%	\$ 162,000	\$ 207,360	-3.57%	-10.00%	
14	Reduction in authorized return	\$ 18,000				\$ 36,000
15	Year 4 Contribution	\$ 50,000				
16	Rate Base Becomes	\$ 1,300,000				
17	Return Required at 12%	\$ 156,000	\$ 199,680	-3.70%	-13.33%	
18	Reduction in authorized return	\$ 24,000				\$ 60,000
19	Year 5 New Well Constructed with Contributions	\$ 200,000				
20	Rate Base Becomes	\$ 1,500,000				
21	Return Required at 12%	\$ 180,000	\$ 230,400	15.38%	0.00%	
22	Reduction in authorized return	\$ -				\$ 60,000