Office of the Secretary
Service Date
March 10, 2010

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF FALLS WATER COMPANY FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES.	**CASE NO. FLS-W-09-01**
	ORDER NO. 31022

On August 4, 2009, Falls Water Company filed an Application for authority to increase its rates and charges. Falls Water provides water service to more than 3,600 residential and commercial customers in an area generally north of the City of Ammon and northeast of the City of Idaho Falls in Bonneville County. Application at 2. The Company last increased its basic rates and charges in January 2008. Order No. 30484. Since that time, the Company has put a new well into service (Well No. 9), acquired additional water rights, began installing meters and transmitters in an effort to upgrade its system, moved offices, acquired new office furniture, and replaced a hydrant on the water system. *Id.* at 2. As a result, the Company requests an increase of $143,496.81 in its total revenue requirement. The Company also proposes to implement a meter test fee, returned check fee, and late payment fee.

After reviewing the record, including the analysis, comments and recommendations of Staff, Company reply, and written comments of the customers of Falls Water, we approve an increase of $92,728 to the Company's existing total revenue requirement. We authorize the new rates to become effective March 16, 2010.

BACKGROUND

A. Procedural History

On September 2, 2009, the Commission issued a Notice of Application and Notice of Intervention Deadline that suspended the Company's proposed effective date of September 10, 2009. Order No. 30893. No parties petitioned to intervene. On September 16, 2009, a Notice of Public Workshop and Notice of Modified Procedure were issued setting a deadline for comments to be filed no later than October 7, 2009. Order No. 30899. On September 30, 2009, Commission Staff filed a Motion to Suspend Deadline for Filing Comments which the Commission granted. Order No. 30927.

On January 28, 2010, the Commission issued a Notice of Scheduling and Notice of Telephonic Hearing. Order No. 30994. The Commission approved a comment deadline of

February 11, 2010, with Company reply comments due no later than February 19, 2010. In addition to Staff and the Company, 14 customers filed comments with the Commission. A telephonic hearing was convened on February 23, 2010. No customers participated in the public workshop or telephonic hearing.

B. The Application

Falls Water proposes to increase the fixed base rate for all metered schedules from \$14.00 to \$18.00, an increase of 29%. However, the Company proposes to decrease the commodity rate from \$0.667 per 1,000 gallons to \$0.601 per 1,000 gallons, a decrease of 10%. The Company maintains that these changes will mean the average residential metered customer will experience an increase of approximately 14.88%; the average multi-family residential customer will experience an increase of 8.51%; and the average commercial customer will experience an increase of 4.22%. The Company placed more emphasis on the basic charge to alleviate winter cash flow issues. *Id.* at 5. The Company requests a return on its common equity of 12%. *Id.* at 4. The Company proposes use of a 2008 test year.

The Company proposes a new non-recurring charge of \$10.00 for testing meters. The Company explains that many customers question their bills at the beginning of the summer irrigation period, but their meters rarely test inaccurately. A charge for testing meters would place the burden on the customers causing the cost to be incurred and remove it from the general body of ratepayers.[1] The Company also requests a new charge of \$20.00 for returned checks and a late payment charge of 1% per month.

The Company proposes to maintain the current single-block commodity rate design for all metered customers, and also maintain the 12,000 gallon minimum volume included in the minimum customer charge. Finally, because all of its customers are now metered, the Company requests authority to cancel its current Residential Flat Rate Schedule R-2.

DISCUSSION

The Commission has reviewed and considered the complete record in Case No. FLS-W-09-01, including Staff's comments and recommendations, the Company's reply comments and the comments of customers.

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[1] If the customer's meter tested outside the manufacturer's specification of plus or minus 1.5% of the factory calibrated test meter the Company would replace the meter and waive the \$10 fee.

A total of 14 comments were received from Falls Water customers. All of the comments filed generally oppose a rate increase. The majority of customers cited poor economic conditions and fixed budgets as justification to deny any increase in rates. A few customers mentioned that the Company had recently received a rate increase. Others commented on poor water quality and/or water pressure issues. The Commission appreciates the time taken by Falls Water customers to comment on the Company's Application. We recognize that for some customers an increase will result in economic hardship. Recognizing the current economic climate of this region and the country, we also note that the Commission has an obligation to Falls Water and its customers to set rates at a level sufficient to allow the Company to recover its reasonable expenses and receive a reasonable return on its investments. This is necessary so the Company can remain financially sound and capable of providing adequate clean water to its customers.

A. Revenue Requirement

1. Test Year, Revenue, Capital Structure and Overall Rate of Return. The Company proposes using 2008 as its test year. In 2008, actual operating revenues totaled $997,043. The major source of revenue for Falls Water is the sale of water to residential, commercial and industrial customers. The capital structure proposed by the Company, along with the weighted actual cost of debt of 2.88% and 12% return on common equity, produces a 4.74% overall rate of return.

Staff agrees with the calculation of the capital structure and accepts the return on equity of 12% as being reasonable. This return on equity is consistent with prior Commission Orders for small water companies. Consequently, Staff proposes to accept the Company's requested test year, capital structure, and overall rate of return.

Staff proposes to include in test year revenues the income from a rental located on Company property.[2] Staff proposes to include this revenue because the property is included in plant in service and the customers are paying a return on the property. The Company is currently recording this income in non-utility income, and excludes this revenue in its Application. The property that has the rental has a revenue requirement of $2,771. The annual income from the rental, at $400 per month, totals $4,800 and including this revenue in test year revenues provides

[2] This property was originally used by the water company, remains in rate base, and is held for a future reservoir site.

a benefit to customers of $2,029. Incorporating the adjustments, Staff proposes test year revenues of $1,001,843. The Company did not dispute this adjustment.

Commission Finding: Based upon our review of the undisputed issues set out above and the agreement of the parties, we find that the use of a 2008 test year with revenues of $1,001,843 is appropriate. We further find the undisputed capital structure and overall rate of return to be consistent with that of other small water companies and, as such, just and reasonable.

2. Office Rent Costs. The Company makes adjustments to the following expense categories: (1) Adjustment for Non-Recurring Items; (2) Increased Labor Costs; (3) Increased Office Rent Costs; (4) Increased Liability Insurance; (5) Increased Source of Supply Costs; (6) Increased Miscellaneous Operating Costs; and (7) Decreased Depreciation Costs. Except for Increased Office Rent Costs, Staff accepts the Company's proposed adjustments. Staff also proposes additional adjustments for the Company's Water Testing Expense.

The Company's adjustment for office rent expense reflects the move, during 2008, from the previous office to the current office and warehouse. The Company's adjustment reflects the average amount of the yearly rental expenses for years two, three, and four of the current lease. The Company's calculated average monthly office and warehouse rent expense is $3,640.

The lease is a four-year lease, beginning on September 1, 2008, and ending on September 1, 2012. For the year beginning September 1, 2008 through August 30, 2009, the base rent was $2,700 per month. The monthly base rent increases to $2,800 for the second year, $2,900 per month for the third year, and $3,000 per month for the final year of the lease. The lease also provides for "operating costs" in addition to the base rent. The operating costs are defined as property taxes, electricity and natural gas, security system, exterior maintenance, and insurance. The "operating costs" include an escalator of 10% per year. The lease was signed with Rockwell Development, Inc. on September 10, 2008. Rockwell Development is an affiliate of Falls Water Company.

As an initial matter, Staff accepted the Company's rationale regarding its need for a larger office and warehouse.[3] Staff reviewed the market analysis provided by the Company, and also investigated rental rates for office space and warehouse space in the Idaho Falls area. Staff

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[3] The new office provides Company personnel with adequate space to perform the functions necessary to provide service to its customers. Staff notes that the new location is not extravagant, and all of the office space is being used.

found the Company's market analysis results to be reasonable. However, Staff is concerned about the affiliate/interlocking relationship of the owners and officers between Falls Water Company and Rockwell Development, Inc. Staff notes that affiliate transactions are subject to close scrutiny and the regulated utility has an increased burden to prove the reasonableness of its affiliate transactions. For expenses to be justified there needs to be evidence of arm's length bargaining between the Company and the source of the expense. The burden of proof is on the Company to show that the costs incurred in the affiliate transaction are reasonable and beneficial to customers.

Staff stated it is unable to find justification for the escalators in the Company's lease agreement. Staff did not believe that the market analysis provided by the Company supported the use of escalators. Therefore, Staff recommended that the total rental expense included in rates be the base rent of $2,700 per month and the base additional "operating costs" in the amount of $610 per month. Although the Company included a cost of $43,684 for Office Rent Costs, Staff proposes that $39,720 be included for recovery from customers.

In response to Staff's adjustment, the Company argues that the lease for its previous office space, rented from an unaffiliated company, included escalators. The Company maintains that the terms of its previous lease demonstrate that its current escalators are reasonable and should therefore be included in rates.

Commission Finding: The Commission is genuinely concerned by the number of affiliate transactions that Falls Water engages in without apparent regard to providing evidence of arm's length bargaining. The Company has an increased burden of proving the reasonableness of the costs incurred in an affiliate transaction. The Company's prior lease that included escalators with an unaffiliated company was entered into in 2004. Company Reply at 1. The economic conditions in 2004 were vastly different than those of 2008, and a comparison with lease terms entered into during an entirely different economic climate is irrelevant. Because the Company has an increased burden to prove arm's length bargaining and has failed to present sufficient evidence that escalators are reasonable in the existing local economy, the Commission finds $39,720 – the base rent of $2,700 per month and the additional "operating costs" of $610 per month – to be just and reasonable Office Rent Costs and therefore recoverable in rates.

3. Water Testing Cost. The Company claims that the cost for water testing during the test year is $9,866. The Company did not propose any adjustments to its water testing

expenses. Because of different testing cycles required for various water contaminants, Staff believes it is necessary to make appropriate adjustments to normalize water testing costs. The Company provided Staff an annualized cost for a nine-year cycle for water testing in the amount of $5,473. The Company assumed that Well No. 9 testing for primary inorganics, synthetic organics, volatile organics, sodium, arsenic and the radiological contaminants would be done annually instead of once every nine years because Well No. 9 is still a new source. After consulting with the Idaho Department of Environmental Quality (IDEQ) and verifying the tests necessary for Well No. 9, Staff made adjustments to annualize expected testing costs.

The difference between water testing costs for Well No. 9 proposed by the Company, $2,155, and that recommended by Staff, $677, based on information gained from IDEQ is $1,478. Subtracting $1,478 from the total normalized water testing cost of $5,473 proposed by the Company results in an annual testing cost of $3,995. Staff's adjustment removes $5,871 from the $9,866 test year water testing cost. In its reply, the Company concurred with Staff's adjustment to its water testing costs.

Commission Finding: Based upon our review and the consensus of the parties, we find $3,995 in annual water testing costs to be just and reasonable.

B. Rate Base

The Company proposes a total rate base of $1,856,449, which includes completion of Well No. 9, acquisition of land and water rights, a pump facility building and a backup generator. In addition, the Company has included the cost to complete the planned installation of a SCADA system for Well No. 9, and the planned acquisition and installation of additional service meters and MXU transmitters as part of its long-term asset replacement and upgrade program. Falls Water proposes to recover the capital expenditures for the various completed and planned system improvements by including them in rate base.

1. Plant in Service. Staff reviewed the Company's request and made several adjustments to plant in service. First, Staff makes an adjustment to Account 307 – Wells to include a chlorinator pump for Well No. 9 that was not included in the Company's pro forma estimate for the new well. This adjustment increases plant in service by $2,810. Second, Staff makes an adjustment to Account 311 – Pumps and Accessories to include new controls for the Variable Frequency Drive for the pump located at Well No. 1 that were not included in the Company's pro forma plant in service adjustment. This adjustment increases plant in service by

$2,668. Next, Staff makes an adjustment to Account 340 – Office Equipment to include two new laptop computers that were not included in the Company's pro forma plant in service adjustment. This adjustment increases plant in service by $1,100. The Company did not dispute these adjustments.

Commission Finding: Based upon our review and the consensus of the parties, we find the above adjustments to the Company's plant in service to be just and reasonable.

2. Well No. 9. An engineering study completed by Schiess & Associates Consulting Engineers for Falls Water in 2004 revealed that the Company's water system was experiencing tremendous growth during the decade and it was imperative that a new well be planned immediately to supply peak-flow and fire-flow demands to the Summit Park and Calico subdivisions. The Company provided a breakdown of the total cost, $1,126,145.95, of developing and constructing Well No. 9. As part of the cost for the development and construction of Well No. 9, the Company contracted the services of Schiess & Associates Consulting Engineers and the East-Central Idaho Planning & Development Association, Inc. (ECIPDA).

Staff believes it was appropriate for the Company to undertake the construction of Well No. 9. Although the well was not operating during Staff's visit on October 8, 2009, this specific project is considered by Staff as "used and useful." Staff reviewed the cost of various work elements required to construct Well No. 9 to determine if they were reasonable. Staff also asked the Company to explain cost control efforts applied in contracting and/or paying for project elements. Staff believes that the costs of various project elements were reasonable and comparable with similar projects built by other water utilities. However, Staff did take exception to some of the engineering/professional consulting fees.

Staff questions payments made by the Company for bid assistance services. Staff believes that bid assistance services provided by ECIPDA are duplicative of similar services provided by Schiess & Associates. Staff recommended that the cost of $8,000 paid to ECIPDA be excluded from the rate base.

In its reply, the Company maintained that the fees paid to both Schiess & Associates and ECIPDA were for "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." Company Reply at 3. The Company stressed that IDEQ, the funding agency for the project, would not have approved disbursement of the loan if it believed that the engineering firms were duplicating efforts.

Commission Finding: Marked as Exhibit 10 in its reply, the Company included a letter from William Teuscher, a water quality engineer with IDEQ. Mr. Teuscher provided assurances that each consultant performed separate and distinct tasks. Therefore, based upon the record and the evidence submitted by the parties, the Commission finds it reasonable to include the total amount paid to ECIPDA.

3. Land Acquisition. The land acquisition cost for Well No. 9 was $160,000. The lot was purchased by the Company from Rockwell Development, an affiliated company of Falls Water. Through the discovery process, Staff asked the Company to provide the necessary information to demonstrate arm's length negotiations. The Company explained that it conducted a market analysis by comparing the sale price of the property obtained from Rockwell Development to sale prices of other real estate properties similar in size and zoning. Staff reviewed the results of the market analysis conducted by the Company and believes that the price of the lot was reasonable.

Staff was informed by the Company that the lot was purchased with the dual intent of locating the well and as a future site for a water storage reservoir. The well and well house site plan provided by the Company shows a future site for a two-million-gallon water storage tank. Although there is no acreage specified for the reservoir site, it appears that only one-half of the lot is needed for the new well and the remainder is devoted to future storage. Therefore, Staff recommended only $80,000 (one-half of the total cost of $160,000) of the purchase price be allocated to the cost of developing Well No. 9 and allowed in rate base and the other half, $80,000, be booked as "Plant Held for Future Use."

In its reply, the Company takes exception to the elimination of this investment from rate base without an equal and commensurate adjustment to the Company's Contributions In Aid of Construction (CIAC) account because the property was purchased using funds contributed to the Company by third party property developers. Company Reply at 4. The Company urges the Commission to "recognize that Contributions [sic] 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." *Id.* at 6. The Company further proposes that the contributed funds be placed in a separate bank account to allow interest to be earned and later recognized as additional contributions to benefit customers when new plant is constructed using the funds. *Id.*

Commission Finding: Contributions in Aid of Construction (CIAC) represent funds paid by a separate entity for the benefit of the system and customers as a whole. Because CIAC funds are paid by a third party, it is not appropriate for shareholders to receive a return on such contributions.[4] Therefore, rate base must be reduced by $160,000 because, as a third-party contribution, it is not considered to be tied directly to the land acquisition. It is true that there may be timing differences between when the CIAC is received and when additional plant is placed in service by the Company. However, the Company has control over the timing of rate cases and should manage its concerns accordingly. It is the Commission's responsibility to assure that rates do not reflect a return on CIAC.

However, for ratemaking purposes the investment in land is separately categorized. As such, we find it appropriate to include $80,000 of the total $160,000 purchase price in rate base as "used and useful" plant in service for the cost of developing Well No. 9. The remaining $80,000 must be booked as "Plant Held for Future Use" because it is not yet property that is "used and useful."

4. Other Adjustments. As a result of the engineering study conducted by Schiess & Associates in June 2004, it was determined that water rights for the Company were insufficient and that additional water rights were needed to serve existing peak demand during the summer and to serve new subdivisions. Following the recommendations of the engineering study, the Company commenced the acquisition of additional water rights through application of new water rights/permits and purchase of existing water rights. Staff verified that the Company's new permit to appropriate water was approved on October 11, 2005.[5] Staff believes that it was necessary and prudent for the Company to increase its water rights by applying for new rights/permits and acquiring existing water rights from private parties. Updated numbers from the Company revealed that the actual amount expended for its additional water rights was $306,192. Staff proposes to reduce the rate base amount in Account 303 – Land and Land

[4] As the Company proposed in its reply, it would be appropriate to place unused contributed funds in a separate bank account to allow interest to be earned and later recognized as additional contributions to eventually accrue to the benefit of customers.

[5] The Company must still submit proof of putting the water to beneficial use on or before October 1, 2010, to complete the licensing process.

Rights by $285,114 to include only the actual amount expended for water rights. The Company does not dispute this adjustment.

The Company planned to purchase and proposes to include the cost for 300 new meters and 300 transmitters in the rate base. The total estimated cost to complete the planned meter project is $85,536. The actual number of service meters installed as of October 31, 2009, was only 81 meters and 81 transmitters. The total cost for the purchase and installation of 81 meters was $37,359. The difference between the $85,536 and $37,359 is $48,177. Because the remaining estimated costs of $48,177 are for meters not yet installed, they are not used and useful and should be excluded from rate base. Staff recommended that the $85,536 proposed by the Company for new meter installations be reduced by $48,177 and allowing the remaining $37,359 in rate base for service meter installations and replacements. The Company does not dispute this adjustment.

Finally, Staff does not oppose the Company's proposal to include $2,150 in the rate base for replacing a fire hydrant. The cost is properly supported by an invoice and appears to be reasonable.

Commission Finding: Based upon our review of the evidence regarding amounts expended for (1) water rights; (2) meters; and (3) a fire hydrant, and the agreement of the parties, we find the above adjustments to be just and reasonable.

The Commission's approved adjustments to plant in service necessitate adjustments to Accumulated Depreciation, Depreciation Expense and Working Capital. Based on the Commission's adjustments Accumulated Depreciation is reduced by $2,119 and Depreciation Expense is reduced by $10,165. These adjustments result in a new working capital calculation that is $1,229 lower. This results in a rate base of $1,450,625 and a total revenue requirement of $1,094,570.[6]

C. Rate Design

The Company proposes to maintain the current single-block commodity rate design for all metered customers and maintain the first 12,000 gallons as the basis for the minimum customer charge. The Company completed installing meters for unmetered customers in late 2008. Because 2008 was also its test year, the Company reasons that there is no historical data to

[6] $1,089,770 for purposes of rate design after an adjustment of $4,800 is made for revenue generated to the benefit of customers by the rental located on the Company's property.

determine if the 12,000 gallons of water included in the minimum charge is reasonable. Absent historical data to perform a comparative bill frequency analysis, the Company does not believe it is appropriate to make a substantial rate structure change. The Company also contends that it is not appropriate to adjust the minimum charge and base it on meter size until enough time has elapsed to allow two to three years of water usage data to accumulate. The Company is, however, requesting a larger increase to the minimum charges and less on the commodity charges in an effort to remedy winter cash flow problems.

Staff agrees with the Company that it would be more appropriate to revisit the issue of commodity included in its minimum charges, and possibly the seasonal rate differential, when better historical consumption data is available. However, Staff believes it is appropriate to implement a new rate design based on meter sizes for several reasons: (a) the Company has already converted to a fully customer-metered system; (b) the service meter use data is not generally relevant or necessary in order to set the minimum charge as a function of meter size; (c) there is quite a variability of meter sizes in the Company's service area in addition to the standard meter sizes of 3/4-inch and smaller; and (d) there is more equity among users for paying fixed costs since it would generally require higher fixed costs to provide service to customers with larger service lines and meters.

Staff reviewed past Commission Orders and found that the Company has been permitted to maintain a rate design with a ratio of fixed charges to total revenue as high as 72% while the excess commodity charge to total revenue provided 28%. Order No. 30027, Case No. FLS-W-05-01. Given the Commission's past position on this matter, Staff did not oppose the Company's proposal to put more emphasis on the basic customer charge. Staff also recognized the inherent problems and cash flow issues encountered by small water companies during periods of low water usage.

In its reply, the Company expressed concern about "hidden costs to the company and its customers" should a rate design based on meter size be adopted. Company Reply at 7. The Company speculated that some customers might want to replace their larger meters for the standard 3/4-inch meter and questioned who would be responsible for the cost associated with the replacement. The Company requests that any change in rate design based on meter size 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." *Id.* at 8.

Commission Finding: The Commission specifically directed the Company in its prior rate case to address rate design as it would apply to a minimum charge based on meter size. Order No. 30484. The Company, therefore, had ample time to consider the ramifications of such a rate design to itself and its customers prior to the filing of this Application. As noted by Staff, service meter use data is not generally relevant to set a minimum charge as a function of meter size. Several small water utilities regulated by the Commission employ this approach. Moreover, it is consistent with the theory of "cost-causation" – that, to the extent practicable, utility costs should be paid by those entities that cause the utility to incur the costs. It is reasonable that customers who impose a higher demand on the water system because of a larger meter pay a greater contribution to plant. If this principle were not followed, additional costs incurred at the request of individuals would be shifted to all other ratepayers. This would not result in a "just and reasonable" rate as required by statute. *Idaho Code* §§ 61-502, 61-503.

The 3/4-inch and smaller meters make up 96.11% of the meters in the system. As for the 3.89% who chose a larger meter, the benefits that prompted them to make the choice for a larger meter initially still exist, i.e., better water pressure, fewer sprinkler zones, etc. Any choice by a customer to replace his meter becomes the financial responsibility of the customer. For the reasons stated above, the Commission finds it just and reasonable to approve a rate design based on meter size.

It is a traditional practice in rate design to use normalized water usage rather than a single year or test year usage to provide the required revenue requirement. Although it originally asserted that 2008 water usage was most representative of the actual excess usage by metered customers, the Company did not dispute Staff's adjustment using a four-year average (with minor adjustments) for residential and a three-year average for commercial normalized excess water usage. Therefore, the Commission finds the use of a normalized excess water usage calculation appropriate.

The Company proposed using 3,573 as the total number of customers at the end of the 2008 test year for its rate design. Since the total current number of customers is 3,638 as of November 11, 2009 (as reported by the Company), Staff believes that it is more appropriate to use this figure in the rate design since it is a known and measurable customer change. The Company did not dispute Staff's adjustment to its total customer count. Because it is known and measurable, the Commission finds that 3,638 is the appropriate customer number for calculating the rate design.

The Company is proposing a larger increase to the minimum charges and less on the commodity charges in its rate design. Based on the Company's rate proposal, the ratio of fixed charges to total charges increases from 59% to 68% and the ratio of commodity charges to total charges decreases from 41% to 32%. Staff completed a cash flow analysis and found that, as with many small water companies, Falls Water does indeed experience cash flow problems during the winter months when revenues are reduced. However, the Company continues to pay the previous owner $2,000 per month for consulting. In addition to this expense, the Company president charged over $35,000 in personal expenses to the Company credit card. While these expenses were not included in the Company's Application for recovery from customers, they can still contribute to cash flow problems and have an impact on customers to the extent that the Company is unable to pay for maintenance and upkeep of the water system. Nevertheless, based on our review of the evidence and given the Commission's past position on this matter for purposes of rate design, we find the Company's proposal to alter the ratio of fixed and commodity charges to total charges reasonable.

Finally, the Company proposes that the current Residential Flat Rate Schedule R-2 be cancelled. All of its customers in the water system are now currently metered and the Company no longer allows new customers to come onto the system without a meter. Staff does not oppose the Company's proposal since there are no more residential flat rate customers. Based on our review of the evidence and the agreement of the parties, we find it reasonable for the Company to cancel its Residential Flat Rate Schedule R-2.

Based on the above determinations, a revenue requirement of $1,089,770, and the current customer total of 3,638, the average monthly bill for a residential customer with a meter size of 3/4-inch or smaller is approximately $24.16, or an increase of 6%. See Attachment 4.

D. Non-Recurring Charges

The Company claims that at the beginning of the summer irrigation period, many customers question the water usage being billed. The Company claims that meter tests rarely produce results outside the manufacturer's specification.[7] The Company proposes to charge a

[7] The Company uses the meter manufacturer's specification of plus or minus 1.5% to gauge when a meter needs to be replaced due to inaccurate readings.

meter test fee of $10.00 to customers who want their meter tested for accuracy. If the customer's meter tests outside of the manufacturer's specification, the Company proposes to replace the meter, adjust the customer's billing (if the customer's meter is over-reading) and waive the $10.00 meter testing fee. Staff does not oppose the Company's proposal to include a "Meter Test at Customer Request Fee" in its non-recurring tariff.

The Company also proposes to implement a returned check charge and a late payment charge. The Company requests the authority to assess a charge of $20.00 when a customer's check or bank draft is returned by the bank for an appropriate reason, including non-sufficient funds. The Company requests a late payment charge of one percent (1%) per month of the past-due balance. The General Rules and Regulations for Small Water Utilities require that the company apply all payments received to a customer's account prior to the application of late fees. Therefore, Staff recommended a late payment charge based on the unpaid balance at the time of the next billing date.

Commission Finding: Based on our review of the record and the agreement of the parties, we find a meter test fee, returned check fee, and late payment fee just and reasonable. These types of fees are common to regulated water companies and consistent with Commission rules. As set out above, if the customer's meter tests outside of the manufacturer's specification, the Company will replace the meter, adjust the customer's billing (if the customer's meter is over-reading) and waive the $10.00 meter testing fee. Also, to be in compliance with our rules, the Company's late payment charge must be based on the unpaid balance at the time of the next billing date.

E. Other Issues

1. Rules and Regulations. The three sections of a water utility tariff – the Commission-approved rate schedules, the General Rules and Regulations for Small Water Utilities and the Uniform Main Extension Rules – describe the relationship between the customer and the Company and establish the basic rules for providing service. The Company's existing tariff on file with the Commission does not include the Uniform Main Extension Rules.

As allowed by the Commission's Utility Customer Relations Rules (UCRR), the Company bills its customers the minimum charge when it is unable to access a meter. However, the Company's billing statements do not separate commodity charges from the monthly minimum charge. In order to meet the requirements of the UCRR, the billing statement should separately identify the monthly base rate, the commodity charge and any non-recurring charges such as the late payment or reconnection charges. In addition, the Company's notices regarding shut-off and termination of service do not presently comply with Commission rules. Finally, the Company's annual rules summary does not include the Commission contact information as required under Rule 701 of the UCRR.

Commission Finding: The Commission finds that the Company must revise its notices, bills, tariff, and other documents to conform to requirements of the UCRR. Updated Main Line Extension Rules, monthly billing statements, initial notices of termination, final notices of termination, and the Company's annual rules summary should be filed with the Commission no later than 60 days from the date of this final Order.

2. Customer Complaints. Rule 401 of the UCRR requires the Company to maintain a record of all customers calling to complain or request a conference. The Company does not currently keep a formal record of its complaints. In reply comments, the Company indicated its willingness to make the modifications necessary to meet the requirements of the Commission's rules.

Commission Finding: Based upon our review of the record, the agreement of the parties, and the requirements of Rule 401, we find it reasonable to require the Company to maintain a record of customer complaints and requests for conference.

CONCLUSIONS OF LAW

The Commission has jurisdiction and authority over Falls Water Company, a water utility, and the issues raised in Case No. FLS-W-09-01, pursuant to Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000, *et seq.* Specifically, we find the proposed annual revenue requirement for Falls Water of $1,089,770 (for purposes of rate design) to be just and reasonable. We further find that a rate design based on meter size is a just and reasonable allocation of the Company's revenue requirement among its customers. Therefore, we conclude that the rates and charges set in this Order are fair, just and reasonable.

ORDER

IT IS HEREBY ORDERED and the Commission in Case No. FLS-W-09-01 does hereby approve as just and reasonable an annual revenue requirement of $1,094,570, an increase of $92,728. We also approve as just and reasonable the detailed changes in revenue requirement, capital structure, return on rate base, and rate design.

IT IS FURTHER ORDERED that the current Residential Flat Rate Schedule R-2 be cancelled.

IT IS FURTHER ORDERED that the Company submit tariffs in compliance with the rates and charges identified in this Order no later than fourteen (14) days from the service date of this Order. The rates and charges authorized by this Order shall become effective for service rendered on and after March 16, 2010.

IT IS FURTHER ORDERED that the Company revise and file with the Commission its notices, bills, and other documents as more fully described herein to conform to the requirements of the Utility Customer Relations Rules no later than sixty (60) days from the service date of this Order.

IT IS FURTHER ORDERED that the Company maintain a record of customer complaints and requests for conference as required by Rule 401, UCRR.

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 10th day of March 2010.

JIM D. KEMPTON, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

MACK A. REDFORD, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

O:FLS-W-09-01_ks5

Commission Decision
Calculation of Rate Base
for Falls Water Company

		Commission Pro Forma Rate Base
	Plant in Service	
1	303 - Land & Land Rights	$ 1,896,347.65
2	304 - Well Structures & Improvements	$ 486,931.50
3	307 - Wells	$ 403,240.68
4	310 - Generators	$ 16,693.04
5	311 - Pumps & Accessories	$ 398,448.07
6	320 - Separators	$ 23,625.85
7	331 - Water Mains	$ 906,136.08
8	334 - Meters	$ 955,683.35
9	335 - Hydrants	$ 50,370.81
10	340 - Office Equipment	$ 36,260.44
11	341 - Transportation Equipment	$ 60,606.64
12	343 - Tools & Equipment	$ 24,049.05
13	Total Plant in Service	5,258,393.16
14	Less Accumulated Depreciation	$ 722,191.91
15	Net Plant in Service	$ 4,536,201.25
	Less Contributions in Aid of Construction	
16	Gross Contributions (12/31/2008)	$ 3,397,236.77
17	Less Accumulated Amortization	$ (199,877.13)
18	Net Contributions in Aid of Construction	$ 3,197,359.64
19	Net Plant in Service	$ 1,338,841.61
20	Working Capital (1/8 of Operation and Maintenance Expense)	$ 111,783.71
21	**Rate Base**	**$ 1,450,625.32**

Commission Decision
Proforma Results of Operations
for Falls Water Co., Inc.

		A Company Pro forma	B Staff Pro forma	C Commission Decision
	Ordinary Income/Expense			
	Income			
	400 · Operating Revenue			
1	460 · Unmetered Revenue	22,947.31	$ 22,947.31	$ 22,947.31
2	461.1 · Metered Residential	939,230.56	$ 939,230.56	$ 939,230.56
3	461.2 · Commercial Revenue	32,074.68	$ 32,074.68	$ 32,074.68
4	474 · Other Utility Revenue	2,790.00	$ 2,790.00	$ 2,790.00
5	Total 400 · Operating Revenue	997,042.55	$ 997,042.55	$ 997,042.55
6	414 · Gain (Loss) on Property	-	$ -	$ -
7	Total Income	997,042.55	$ 997,042.55	$ 997,042.55
8	Expense			
9	601.5 · Labor Field	173,620.31	$ 173,620.31	$ 173,620.31
10	601.7 · Labor Meter Reading	3,707.25	$ 3,707.25	$ 3,707.25
11	601.8 · Labor Office	55,227.60	$ 55,227.60	$ 55,227.60
12	601.9 · Admin - Labor	109,600.08	$ 109,600.08	$ 109,600.08
13	604 · Employee Benefits	72,801.22	$ 72,801.22	$ 72,801.22
14	610 · Purchased Water	1,112.00	$ 1,112.00	$ 1,112.00
15	615 · Electrical Power	126,621.61	$ 126,621.61	$ 126,621.61
16	618 · Chemicals	7,432.72	$ 7,432.72	$ 7,432.72
17	620.2 · Source M&S	17,920.77	$ 17,920.77	$ 17,920.77
18	620.6 · Distribution M&S	63,677.49	$ 63,677.49	$ 63,677.49
19	620.7 · Postage	17,055.60	$ 17,055.60	$ 17,055.60
20	620.8 · Office	31,644.03	$ 31,644.03	$ 31,644.03
21	620.81 · Telephone Expense	12,960.01	$ 12,960.01	$ 12,960.01
22	620.82 · Bank service charges	3,829.01	$ 3,829.01	$ 3,829.01
23	620.83 · Office Utilites Expense	2,340.79	$ 2,340.79	$ 2,340.79
24	631.1 · Engineering	1,620.00	$ 1,620.00	$ 1,620.00
25	631.2 · Accounting	2,785.00	$ 2,785.00	$ 2,785.00
26	631.4 · Payroll Services	3,340.50	$ 3,340.50	$ 3,340.50
27	635 · Testing	9,865.63	$ 3,995.00	$ 3,995.00
28	636.2 · Source Contract Repairs	839.58	$ 839.58	$ 839.58
29	636.3 · Trash	1,039.57	$ 1,039.57	$ 1,039.57
30	636.4 · Outsourced Bad Debt Collection	269.79	$ 269.79	$ 269.79
31	636.6 · Distribution Contract Repairs	28,055.57	$ 28,055.57	$ 28,055.57
32	636.7 · Data Processing	4,227.50	$ 4,227.50	$ 4,227.50
33	636.8 · Contract Service - Consulting	-	$ -	$ -
34	641 · Rental of Property	43,684.04	$ 39,720.00	$ 39,720.00
35	642 · Rental of Equipment	20,700.60	$ 20,700.60	$ 20,700.60
36	650 · Transportation Expense	32,985.78	$ 32,985.78	$ 32,985.78
37	656 · Insurance Expense	15,318.00	$ 15,318.00	$ 15,318.00
38	656.1 · Workers Compensation Ins	10,222.20	$ 10,222.20	$ 10,222.20
39	660 · Advertising Expense	3,521.82	$ 3,521.82	$ 3,521.82
40	666 · Rate Case Amort	510.00	$ 510.00	$ 510.00
41	670 · Bad Debt Expense	13,612.33	$ 13,612.33	$ 13,612.33
42	675.2 · Dues & Publications	968.00	$ 968.00	$ 968.00
43	675.4 · IDHW Fee Expense	10,987.97	$ 10,987.97	$ 10,987.97
44	Total Expense	904,104.36	$ 894,269.69	$ 894,269.69
45	Net Ordinary Income	92,938.19	102,772.86	102,772.86
46	Other Income/Expense			
47	Other Income			
48	421 · Non-Utility Income	-	$ 4,800.00	$ 4,800.00
49	Total Other Income	-	$ 4,800.00	$ 4,800.00
50	Other Expense			
51	403 · Depreciation Expense	74,793.25	$ 64,353.91	$ 64,627.78
52	408 · Taxes			
53	408.11 · Property Taxes	16,766.01	$ 16,766.01	$ 16,766.01
54	408.12 · Payroll Taxes	29,503.46	$ 29,503.46	$ 29,503.46
55	409.10 · Fed Income Tax	-	$ -	$ -
56	409.11 · State Income Tax	20.00	$ 20.00	$ 20.00
57	Total 408 · Taxes	46,289.47	$ 46,289.47	$ 46,289.47
58	408.10 · Regulatory Fee	-		
59	426 · Misc. Non-Utility Expenses	-		
60	426.1 · Donations - Tax Deductible	-		
61				
62	Total Other Expense	121,082.72	110,643.38	110,917.25
63	Net Other Income	(121,082.72)	(105,843.38)	(106,117.25)
64	Net Income	(28,144.52)	(3,070.52)	(3,344.38)

ATTACHMENT 2
ORDER NO. 31022
CASE NO. FLS-W-09-01

COMMISSION DECISION
CALCULATION OF REVENUE REQUIREMENT
For FALLS WATER COMPANY

		(A)	(B)	(C)
1	Rate Base	$ 1,450,625.32		
2	Rate of Return	4.74%		
3	Net Operating Income Requirement	$ 68,806.78		
4	Net Operating Income Realized	(3,344.38)		
5	Net Operating Income Deficiency	$ 72,151.16		
	Revenue Requirement Increase		Non-Tax	Taxable
6	Overcome Loss		$ 3,344.38	
7	Subject to Income Tax			$ 68,806.78
8	Gross-up Factor		102%	130%
9	Revenue Increase Requirement		$ 3,409.70	$ 89,318.20
10	Total Revenue Increase Required			$ 92,727.90
11	Operating Revenue			$ 997,042.55
12	Other Revenue (Rental Income)			$ 4,800.00
13	Adjusted Test Year Revenue			1,001,842.55
14	**Percent Increase Required**			**9.26%**
15	Total Revenue Requirement			$ 1,094,570.45
16	Revenue for Rate Design			**$ 1,089,770.45**

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)	0.3840%
Taxable Amount	98.0845%
State Income Tax Rate @ 7.6%	7.4544%
Federal Taxable	90.6301%
Federal Income Tax Rate @ 15%	13.5945%
Net After Tax	77.0356%
Net Income to Gross Revenue Multiplier	129.81%
Gross-up Factor to overcome loss	102%

Falls Water Case No. FLS-W-09-01
Commission-Approved Rate Design (By Service Meter Size)

Commission-Approved Revenue Requirement	**$1,089,770**
Total Number of Customers	**3,638**

MINIMUM CUSTOMER CHARGES

Service Meter Size	Number of Meters	Minimum Volume-Gals	Minimum Charge	Total An. Rev. From Min. Charge
5/8 inch	373	12,000	$ 16.10	$ 72,063.60
3/4 inch	3,123	12,000	$ 16.10	$ 603,363.60
1 inch	105	17,000	$ 22.54	$ 28,400.40
1 1/2 inch	11	22,000	$ 28.98	$ 3,825.36
2 inch	24	28,000	$ 37.03	$ 10,664.64
4 "	2	49,000	$ 66.01	$ 1,584.24
Total	**3,638**			**$ 719,901.84**

COMMODITY CHARGES

Total Excess Volume (x 1,000 gals)	619,071
Deduct vol. due to increase of minimum for var. sizes (x 1,000 gals)	13,116
Net volume of excess usage (x 1,000 gals)	605,955
Commodity charges for all meter sizes ($/1,000 gals)	$ 0.611
Total Commodity Revenue	**$ 370,238.51**

Total Revevue (minimum and commodity charges)	**$ 1,090,140**
Revenue over (under) Revenue Requirement	**$370**
Various Charges as a % of Gross Revenue	
Minimum Charge	**66%**
Commodity Charge	**34%**

ATTACHMENT 4
ORDER NO. 31022
CASE NO. FLS-W-09-01