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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**
	COMMENTS OF THE COMMISSION STAFF

The Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Kristine A. Sasser, Deputy Attorney General, in response to the Notice of Scheduling and Notice of Telephonic Hearing (Order No. 30994) submits the following comments.

BACKGROUND

On August 4, 2009, Falls Water Company filed an Application for authority to increase its total revenue requirement by $143,497, or 14.39%. The Company is proposing to increase its metered customer charge from $14.00 to $18.00 (29%) to improve cash flows to meet minimum fixed costs during winter months and decrease it's commodity rate from $0.667 to $0.601 per thousand gallons (-10%). The Company proposes to delete its obsolete current flat rate Schedule R-2. The Company is also proposing to add certain non-recurring charges to the Company's Schedule M. The Company requested that the Application be processed by Modified Procedure and that the tariff changes become effective September 10, 2009.

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 was 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 the Deadline for Filing Comments. The Commission granted Staff's Motion to Suspend and directed Staff to present a feasible schedule to the Commission for approval after meeting with the parties to discuss the processing of this case. Order No. 30927. Pursuant to the directive given by the Commission, the parties agreed to a schedule which was adopted by the Commission. Order No. 30994.

STAFF ANALYSIS

System Condition

As part of the evaluation process, Staff conducted a field tour of the water system on October 8, 2009, accompanied by Tony Wise, Operations Manager and certified water operator of Falls Water Company. The tour involved inspecting the various components of the water supply and distribution system and focusing on project components that were recently completed or are in the process of being completed.

Falls Water currently has seven production wells (Well Nos. 1, 2, 4, 5, 6, 8 & 9) as sources of water supply. Well No. 9 located at North Deborah Drive and close to the Company's office is the newest well developed and put into service in May 2009. Well No. 9 is a 16-inch well equipped with 450-hp vertical turbine pump, the largest pumping unit in the Falls Water system with a design capacity of approximately 3,000 gpm. Well No. 9 is also equipped with a variable frequency drive and a 514 kW backup power generating unit. Although pump No. 9 was not operating during the tour, Staff observed the pressure reading at the discharge line (mainline pressure) past the gate valve was 64 psi. The system does not have storage reservoirs although some of the pumping units are equipped with hydro-pneumatic tanks to supply water during low demand. The facility does not have any booster pumps. The well pumps are also equipped with totalizing flow meters to record water production on a monthly basis. The total rated pumping capacity of all the production pumps is approximately 9,100 gpm.

The distribution network is comprised of various pipe sizes ranging from 2-inch to 12-inch PVC pipes. Water is delivered to various residential and commercial customers using a combination of manual-read (11% of total), touch-read (70%) and radio-read (19%) service meters with sizes ranging from 5/8-inch to 4-inch meters. Approximately 86% of all customers

have 3/4-inch service meters. In response to Staff Production Request No. 43, the Company indicated that the conversion of unmetered customers to metered customers was substantially completed at the end of 2008. The few remaining unmetered service lines were converted to metered lines in the spring of 2009. Currently, the Company provides water service to over 3,600 residential and commercial customers. Application at 2.

Revenue Requirement

Test Year, Revenues, Capital Structure, and Overall Rate of Return

The Company proposes using 2008 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. There is also revenue from hook-up fees. In 2008, actual operating revenues totaled $997,043.

The Company proposes a capital structure of 84.44% Long Term Debt and 15.56% 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 2.88% 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 (Company Exhibit 3). This return on equity is consistent with prior Commission orders for small water companies.

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 revenue from a rental located on Company property. This property was originally used by the water company, remains in rate base, and is held for a future reservoir site. The Company is currently recording this income in non-utility income, and excludes this revenue in its Application. Staff proposes to include this revenue because the property is included in plant in service and the customers are paying a return on this property. 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 (Attachment A, line 48) and including this revenue in the test year revenues provides a benefit to customers of $2,029. Incorporating the adjustments, Staff proposes test year revenues of $1,001,843.

Expenses

The Company makes adjustments to seven expense categories, as shown on Company Exhibit No. 2. The expense adjustments are:

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
7. Decreased Depreciation Costs

Except for Item 3, Increased Office Rent Costs, Staff accepts the Company's proposed adjustments. Staff also proposes additional adjustments for Water Testing Expense and Depreciation Expense. Staff's adjustment to Depreciation Expense is discussed in the Rate Base section, as it flows from Staff's adjustments to plant in service. Staff's other adjustments are discussed below and shown on Staff Attachment A.

Increased Office Rent 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 2, 3, and 4 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. The terms of the lease include a base rent of $2,700 per month, increasing by $100 per month in each successive year over the term of the lease. 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. For the first year of the lease, the additional rent payment for the operating costs totaled $610 per month, and covered property taxes, electricity & natural gas, security system, exterior maintenance, and insurance. The lease terms include an escalator in these costs of 10% per year. For the first year

the additional rent was $610 per month, and increases to $811.91 per month for the fourth year of the lease.

The lease was signed with Rockwell Development, Inc., on September 10, 2008. Rockwell Development is an affiliate of Falls Water Company. Both Rockwell Development and Falls Water share the same owners. For Falls Water Company, Inc., Brent Johnson is the President, Jay Johnson is the Vice President, and Paul Johnson is the Secretary/Treasurer. They are also listed as Directors of Falls Water Company on the annual report to the Secretary of State. For Rockwell Development, Inc., Brent Johnson is the Secretary, Paul Johnson is the President, and Jay Johnson is the registered agent.

Staff is concerned about the affiliate/interlocking relationship of the owners and officers between Falls Water Company and Rockwell Development, Inc. The potential for abuse arises because the Company management could inflate expenses charged to the regulated utility, essentially moving the profit from the regulated utility to an unregulated affiliate. Regulated utilities by law receive recovery of costs incurred in the service of providing an essential service; therefore, if the Company inflates utility expenses, the requested recovery from customers for those inflated expenses in rates could be excessive.

Staff notes that affiliate transactions are subject to close scrutiny and the regulated utility has an increased burden of proving the reasonableness of its affiliate transactions. The Company cannot simply rely upon the fact that expenditures were incurred. 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.

In Response to Production Request Nos. 7, 8, and 9, the Company provided information about the Company's need for a larger office and warehouse and a market analysis for the current office and warehouse rental. The Company provided the following reasons for moving to a new office with a warehouse:

1. The lease at the old location was complete and the Company did not want to sign another long term lease agreement for the location because the location no longer met its needs.
2. The Company wants to improve efficiencies in communication and travel by having all managerial offices at one location.
3. The parking for customers and employees was insufficient at the old location.
4. The old location was located outside the Company's service area and the Company was looking to locate within its service area for the convenience of

its customers and to improve efficiency of travel time for field employees to bring information to the office.

5. The old location did not have sufficient room for storage of customer files and other filing that office staff needed to access routinely.
6. A new location would need warehouse space. The warehouse space would be used to store chemicals, equipment, and other items that DEQ states are possible contaminates to the water supply and to comply with wellhead protection rules are not to be stored on site at the wells.

Staff finds the rationale provided by the Company to be reasonable. The new office provides Company personnel with adequate space to perform the functions necessary to provide service to the customers. Staff is aware that the Company had outgrown the previous location and that more space was needed. Staff notes that the new location is not extravagant, nor is there office space that the Company is not utilizing.

Staff reviewed the market analysis provided by the Company. The market analysis provided seven different comparisons for office space with and without a warehouse. Based on the square footage rates for comparable office space of $1.00 per square foot and warehouse space at $0.50 per square foot, the market analysis found the fair market value of the current office and warehouse to be $2,800 per month.

Staff also made inquires as to the rental rates for office space and warehouse space in the Idaho Falls area, and found the market analysis to be reasonable. However, Staff is concerned with the level of due diligence the Company has undertaken in order to prove that the lease terms are reasonable and representative of an arm's length transaction. The market analysis was prepared by Ben Winder of Winstar Realty, yet it was not on Winstar Realty letterhead, nor was it signed by Ben Winder. Furthermore, Staff believes that Ben Winder has a conflict of interest. Ben Winder is listed as the Treasurer of Rockwell Development in the 2009 Annual Report to the Secretary of State. Therefore this market analysis is also an affiliate activity and does not independently verify the market value of the current lease. Staff is not comfortable basing any recommendations upon this market analysis. If Staff had not also made inquires as to the rental rates for office space and warehouse space in the Idaho Falls area, it would be inclined to remove all costs associated with the new office and warehouse. However, based on its own inquiry, Staff finds that the initial lease terms are within a reasonable range.

However, Staff is unable to accept all the terms of the lease, especially the escalators. Staff therefore recommends that only the base amount of the lease be included in rates for

recovery from customers. Staff recommends that the total rental expense included in rates be the base rent of $2,700 per month and the base additional rent in the amount of $610 per month.

Staff proposes that the office and warehouse rent costs to be included for recovery from customers is $39,720. The Company included a cost of $43,684 for Office Rent Costs. Staff's adjustment is a decrease in expenses of $3,964, as shown on Attachment A, line 34.

Cash Flow Issues

In the Application the Company states that "The Company's current monthly winter billings create a revenue shortfall of approximately $9,000 each month." Application at 5. This is typical of cash flow problems experienced by many small water companies. In the winter months, revenues are reduced, while in the summer months revenues are increased. Staff has done a cash flow analysis and finds this also to be true for Falls Water Company. However, the cash flow problems are, in part, exacerbated by the owners of the Company. The Company continues to pay the previous owner $2,000 per month for consulting. In the previous rate case, FLS-W-07-01, the Commission disallowed this expense for ratemaking purposes, and while it has not been included in this Application for recovery from customers, it does impact the cash available to the Company, especially during the winter months. In addition to this expense, the Company President charged over $35,000 in personal expenses to the Company credit card. While these expenses were also excluded from the Application for recovery from customers, this too contributes to the cash flow problems experienced by the Company. Staff notes that the owners of the Company do not draw a salary from the Company, and in turn, it is Staff's understanding that the owners are not involved in the daily operations of the Company, therefore a salary would not be appropriate. Staff finds that although these expenditures are not included in the revenue requirement, it is the revenue and cash flow from customers that is funding these activities, and will have an impact on customers to the extent that the Company is unable to pay for maintenance and upkeep necessary to maintain the water system.

Staff notes that the Company's last pay increases were effective in December of 2008. The Company, in response to the downturn in the economy, did not give pay raises in 2009 and, during the onsite audit, indicated that it has no plans to give pay raises in 2010. During the audit, Staff found the Company's costs to be well contained, to the extent that the Company management had control over those costs, and that the Company management strives to keep the costs as low as possible, without negatively impacting service to the customers.

Electric Power Costs

Staff reviewed the adjustment made by the Company to recognize increases in electric power costs. The power cost model developed by the Company initially calculates the normalized kWh usage per customer using the actual kWh usage for nine years (2000-2008) and applying the current electric power rates. The model then computes the annual power cost by using the nine-year average yearly demand and energy charges and multiplied by the total number of year-end customers during the test year (3,594). The result is a normalized annual power cost of $126,622. Staff believes the methodology used by the Company is appropriate. The normalized amount compares favorably with the actual 2009 power expense of $126,022. Staff, therefore, accepts the power cost adjustment proposed by the Company in the amount of $30,028 resulting in a pro forma cost of power in the amount of $126,622. (Attachment A, line 15).

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 (Response to Staff Production Request No. 2). The Company assumes that for Well No. 9 testing for primary inorganics, synthetic organics, volatile organics, sodium, arsenic and the radiological contaminants (Gross Alpha, Radium 226, Radium 228 and uranium) would be done annually instead of once every nine years (9-year cycle) because Well No. 9 is still a new source. Staff contacted IDEQ and verified that while additional tests may be necessary, they will not be required on a yearly basis for the nine-year cycle. Consequently, Staff made adjustments for the cost of water testing in Well No. 9. These adjustments are presented in Attachment B. The difference between water testing costs for Well No. 9 proposed by the Company ($2,155) and that recommended by Staff ($677) 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 water testing cost. (Attachment A, line 27).

Rate Base

The Company proposes a total rate base of $1,856.449 (also shown on Staff Attachment C, line 21), which includes completion of Well No. 9, land and water rights acquisition, pump facility building and a back-up 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. The meter replacement will consist of upgrading old manual read meters to touch read meters.

As part of the Company's Application, Falls Water proposes to recover the capital expenditures for the various completed and planned system improvements as previously discussed by including them in rate base.

Rate Base Adjustments

Staff has reviewed the Company's request and makes several adjustments to Plant in Service. These include adjustments to Account 303 – Land and Land Rights, Account 304 – Well Structures and Improvements, Account 307 – Wells, Account 311 – Pumps and Accessories, Account 334 – Meters, and Account 340 – Office Equipment. Staff also makes the appropriate adjustments to depreciation expense and accumulated depreciation as they relate to the various plant adjustments proposed by Staff. Staff's rate base adjustments are summarized on Attachment C. The depreciation expense adjustment is summarized on Attachment A, line 51.

Account 307 – Wells

Staff makes an adjustment to Account 307 – Wells, to include a chlorinator pump for Well No. 9. In the course of the audit, Staff was able to evaluate the pro forma adjustments to plant in service proposed by the Company. This adjustment includes the additional investment in 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 as shown on Attachment C, line 3.

Account 311 – Pumps and Accessories

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. In the course of the audit, Staff was able to evaluate the pro forma adjustments to plant in service proposed by the

Company. This adjustment includes the additional investment in Well No. 1 that was not included in the Company's pro forma plant in service adjustment. This adjustment increases plant in service by $2,668 as shown on Attachment C, line 5.

Account 340 – Office Equipment

Staff makes an adjustment to Account 340 – Office Equipment to include 2 new laptop computers. In the course of the audit, Staff was able to evaluate the pro forma adjustments to plant in service proposed by the Company. This adjustment includes the additional investment in office equipment that was not included in the Company's pro forma plant in service adjustment. This adjustment increases plant in service by $1,100 as shown on Attachment C, line 10.

Well No. 9

As discussed previously, one major project that the Company has undertaken was the development and construction of 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. Although Schiess & Associates Engineering Report initially recommended to build the Iona Road Well and Crowley Road Well to improve system pressures and keep supply in pace with demand, Well No. 9 was eventually built by the Company at Deborah Drive. The Company contends that the mainline infrastructure in place around the Deborah Drive lot provides a much better distribution of the well's production into the water system with little or no additional mainline installations other than main line tie-in for the well itself. The Deborah well site can also provide space for future water storage infrastructure.

Staff believes it was appropriate for the Company to undertake the construction of Well No. 9 at the chosen location. The Company also provided Staff a copy of a letter from the Idaho Department of Environmental Quality dated February 27, 2006, indicating that IDEQ supported the project and concured that the proposed water system improvements would be beneficial for public health. The Company put Well No. 9 into service in May 2009. Although the well was not operating during the Staff visit on October 8, 2009, this specific project is considered by Staff as "used and useful."

Cost of Developing Well No. 9

In response to Staff Production Request No. 9, the Company provided a breakdown of the total cost of developing and constructing Well No. 9:

Project Component	**Cost**
Land acquisition	$ 160,000.00
Well drilling	282,843.63
Pump and motor	100,394.35
Electrical controls	90,363.72
Variable frequency drive	30,805.65
Appurtenances	17,251.60
Pump facility building	144,851.00
Back-up generator	98,252.00
Mainline tie-in	54,269.00
Engineering & Miscellaneous	147,115.00
TOTAL COST	**$1,126,145.95**

Staff reviewed the cost of various work elements required to construct Well No. 9 to determine it they were reasonable. Staff also asked the Company to explain cost control efforts applied in contracting and/or paying for project elements. The Company explained that construction of Well No. 9 was funded with State Revolving Loan Fund monies. As with any state funded project, a competitive bid process was followed and the low bidder was selected to build the project. The project was bid in two parts: 1) drilling of the well which was awarded to Andrews Well Drilling and b) construction of the well house, mainline tie-ins, pumps, motors controls, back-up generators, VSD, and appurtenances which was awarded to Vern Clark & Sons. Staff believes that the costs of various project elements were reasonable and comparable with similar projects built by other water utilities. However, Staff takes exception to some of the engineering/professional consulting fees as discussed below.

Engineering Consulting Fees

Staff questions the two payments made by the Company for bid assistance services. 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. The specific services provided by Schiess & Associates was specified as follows:

Bid Assistance Services:	
Provide bid documents to bidders (1 for well, 1 for building)	$1,200
Answer contractor questions (2 bid periods)	1,680
Issue addendums (2 bid periods)	2,020
Evaluate bids & prepare recommendations (1 for well, 1 for well house)	1,740
Prepare contracts and Notice of Awards (1 for well, 1 for well house)	1,520
Meetings with FWC (2 meetings)	400
Schedule Subtotal	$8,560

(Exhibit A-Description of Engineering Services, Professional Services Contract between Falls Water Company and Schiess & Associates Consulting Engineers, February 22, 2006.)

The Company also confirmed with Staff (response to Staff Production Request No. 50) that the bid documents and project specification for construction of the major components of Well No. 9, which included well construction and development and construction of the well house, mainline, pumps, etc. were prepared by Schiess & Associates and that such documents were approved by the IDEQ, through whom the financing for the project was obtained.

However, another payment was made to East-Central Idaho Planning & Development Association (ECIPDA) for doing similar tasks for the same project. One of the specific services provided by ECIPDA is as follows:

> 3. The Falls Water will pay the Contractor $8,000 for working with the engineer/architect to prepare bid package, to oversee the bid opening and bid award, to help with the execution of construction contract, and to conduct the pre-construction conference. Payment will occur upon execution of the construction contract and completion of the pre-construction conference.
> (Attachment A, Scope of Services, Professional Services Contract, Falls Water and ECIPDA, February 22, 2006.)

Staff believes that this service provided by ECIPDA is a duplication of a similar service already provided by Schiess & Associates as discussed above. Staff recommends that the cost of $8,000 paid to ECIPDA be excluded from the rate base as shown on Attachment C, line 2.

Land Acquisition Cost

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. In Order No. 30484 (Case No. FLS-W-07-01), the Commission said:

> We find there is substantial and competent evidence that the property for Well No. 9 was purchased from an affiliate Falls Water. For affiliate expense to be justified, the utility needs to provide compelling evidence of arm's length bargaining when incurring costs between the utility and affiliate. In addition, it appears that the water rights were acquired from a company affiliated with Falls Water's vice president.

Staff asked the Company to provide the necessary information to demonstrate the reasonableness of the lot purchase price because there appeared to be no arm's length negotiation that took place between Falls Water and its affiliated company. In response to Staff Production Request No. 28, 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. The Company found that the price of the lot for Well No. 9 is within the sale values of other comparable properties. Staff reviewed the results of the market analysis conducted by the Company and believes that the price of the lot was reasonable.

However, 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 to Staff 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 recommends only $80,000 of the purchase price be allocated to the cost of developing Well No. 9 and allowed in rate base (one-half of the total cost of $160,000) and the other half ($80,000) be booked as "Plant Held for Future Use." The Staff adjustment to remove $80,000 from Land is part of the adjustment shown on Attachment C, line 1.

Cost of Additional Water Rights

As a result of the engineering study conducted by Schiess & Associates in June 2004, it was found that water rights for the Company were deficient and that additional water rights were needed to serve existing peak demand during 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. The Company must still submit proof of putting the water to beneficial use on or before October 1, 2010 to complete the licensing process.

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. Staff notes the total water rights that the Company owns and purchased is 35.21 cfs (17.37 cfs under decreed rights/permit plus 17.84 cfs purchased from private parties). The 35.21 cfs of Company water rights currently exceeds the present flow rates for all Company well pumps totaling 20.28 cfs (9,100 gpm per Company response to Staff Production Request No. 38).

Two of the purchased water rights were acquired by the Company from Idaho Sod Farm, an affiliate company, for $492,000 (492 AF, $1,000/AF) and $750,000 (1,000 AF, $750/AF). Again, Staff asked the Company to provide information demonstrating the reasonableness of the costs for the purchase of the above water rights. The Company explained that unlike the real estate and rental markets, data regarding the sales of similar ground water rights is not readily available. Private sale prices of ground water rights are not recorded by the Idaho Department of Water Resources and the Company is unaware of other agencies where records could be obtained. The Company further contends that unlike surface water rights, ground water rights are not as frequently sold or rented. Surface water prices can be obtained from sales of shares in reservoirs. Staff attempted to research ground water rights sales data in Idaho for comparison but was unable to find any. Idaho is a non-disclosure state and it is difficult to get water rights sales data from public records. Some entities hire professionals (*e.g.*, WestWater Research, Inc., Boise and LeMoyne Realty and Appraisal, Inc., Twin Falls) that offer water rights evaluation and appraisal services and use the appraised value as a base for negotiating prices. The Company, however, did not use such services. Staff notes that performing an appraisal/evaluation of water rights by appropriate professionals would add to the total cost of water rights acquisitions.

Additional research conducted by Staff revealed that during the City of Shelley Council Meeting on March 10, 2009, Mr. Del Kunz, Idaho Water Company, responded to a question posed by Council Member John Lent concerning cost of water rights in the area. Idaho Water Company based in Eden, Idaho provides services for obtaining, selling or transferring water rights. Mr. Kunz explained to the Council that he bought, sold, and transferred water rights and he had water rights with early priority dates such as 1952 that might be beneficial to the city. He said usually the cost of water rights is $900 to $1,000 per acre-foot (AF). Given the location and early priority dates, Staff believes that the amount paid by the Company to Idaho Sod, Inc., is reasonable.

The Company also acquired water rights from Idaho Water Company (Water Rights Nos. 35-12915 and 35-13316) for $502,875 (1004 AF @ $500.8715 per AF). Staff believes that the price paid by the Company to Idaho Water Company is also reasonable.

Staff was apprised by the Company that all the water rights purchased by the Company as discussed above have not yet been officially transferred and approved by the Idaho Department of Water Resources. This means that the Company cannot use these water rights and pump water exceeding its decreed and permitted water rights of 17.37 cfs. Nevertheless, Staff believes advance purchase of water rights when available, with cost recovery, is justified given the risk of future ground water curtailment and the obligation of the Company to serve growing demand. Prior Commission decisions are also consistent with this approach:

> It is undisputed that United Water has experienced steady growth in the number of customers in recent years, and that demand for potable water is increasing. The only method available to the Company to increase its water supply is to obtain, strengthen and consolidate water rights in both surface and groundwater. We believe the Company has acted responsibly in taking action to increase its water rights, even if it has enough water to supply current demands. Accordingly, the Commission accepts the Company's water rights costs to be included in the rate base.

Order No. 29838

In the Response to Staff Production Request No. 3, the Company provided updated numbers for rate base. Included in the response was an actual amount expended for water rights of $306,192, rather than the estimated Pro Forma amount of $591,306 that was included in the Application. The Company has contracted for a total of $1,744,875 for the water rights, but has not completed the transactions. Staff reduces the rate base amount in Account 303 – Land and Land Rights by $285,114 to include only the actual amount expended for water rights. This adjustment to rate base does not have a corresponding depreciation adjustment as this account is not depreciated. This adjustment is included in the adjustment amount shown on Attachment C, line 1.

Meter Installations

The Company planned to purchase and proposes to include the cost for 300 new meters and 300 MXU 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 MXU's. The actual cost for purchasing 81 meters and 81MXU's, with

supporting invoices, was $33,309. The Company also incurred $4,050 for the installation of 81 meters in new construction ($50 labor cost per meter x 81meters). The total cost for installing 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 recommends that the $85,536 proposed by the Company for new meter installations be reduced by $48,177 and allow the remaining $37,359 in rate base for service meter installations and replacements (Attachment C, line 8).

Hydrant Replacement

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. In response to Staff Production Request No. 45, the Company states that the fire district for Bonneville County will not reimburse it for the hydrant. The Company explains that it currently pays no franchise fees to the county and in exchange pays the replacement/maintenance costs for fire hydrants. The Company believes that the current arrangement is satisfactory and the depreciation of the asset over its useful life is a reasonable Company cost. Staff concurs.

Summary

Staff adjustments are summarized on Attachment D. This summary simply lists all the adjustments previously discussed and shown on Attachments A and C.

Staff adjustments to plant in service necessitate adjustments to Accumulated Depreciation, Depreciation Expense and Working Capital. Based on the Staff plant in service adjustments, Accumulated Depreciation is reduced by $2,252 (shown on Attachment C, line 14,) and Depreciation Expense (shown on Attachment A, line 51) is reduced by $10,439. Working capital is calculated as 1/8 of Operation and Maintenance Expense. The Staff adjustments result in a new working capital calculation that is $1,229 lower (Attachment C, line 20).

Staff proposes a rate base of $1,442,759 as shown on Attachment C, line 21. Staff proposes a revenue requirement of $1,093,807. Staff's calculation of the revenue requirement is shown on Attachment E, line 15.

Overall, Staff has found that Falls Water has kept its books and records 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 plan ahead to provide an adequate water system for customers.

Rate Design Issues

The Company proposes the following in its rate design to produce the requested 14.39% increase in annual revenue: a) 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 charge; b) eliminate/cancel the current flat rate Schedule R-2 for residential customers; c) increase the basic customer charges and decrease the commodity charges; d) use the 2008 excess water usage data for various classes of customers; and e) use 3,593 total number of customers in estimating expected revenues using the Company's proposed rates.

As part of processing this rate case, Staff reviewed the rate design issues discussed in Commission Order No. 30484 pertaining to the Company's last general rate Case No. FLS-W-07-01. In that Order, the Company was specifically ordered by the Commission to address the following issues in its rate design when the Company filed its next general rate case: a) the 12,000 gallon minimum monthly charge; b) the implementation of seasonal differentials in the allowance; and c) whether the minimum charge should be different based upon meter size. The Company did not address any of the above issues in its current Application.

Minimum Charge Water Allowance

In response to Staff Production Request No. 22, the Company explained that it completed installing meters for unmetered customers in late 2008. Because the metering of all customers was just completed in 2008 and 2008 was the Company's test year, there was no historical data to determine if the 12,000 gallons of water included in the minimum charge was reasonable. In addition, the Company did not have complete winter and summer usage data at the time the current Application was prepared. Absent historical data to perform a comparative bill frequency analysis, the Company did not believe it was appropriate to make a substantial rate structure

change. The Company believes that it is more appropriate to accumulate historical consumption data before making significant changes to its rate design. In its defense, the Company also cited the reasoning provided in Commission Order No. 30027, page 10 in Case No. FLS-W-05-01:

> A 12,000-gallon minimum charge allowance is recommended by Staff based on the average winter use for metered customers that varies from about 6,000 gallons per month to approximately 12,000 gallons per month. Staff believes it is appropriate to set the minimum charge allowance at a level where few, if any will pay for excess water in the winter months.

Staff reviewed the available water usage data provided by the Company for the three winter periods in 2006, 2007 and 2008 and found that winter usage ranges from 8,067 to 10,336 gallons with an average winter usage of 9,227 gallons per month per customer. See Attachment F. While these figures suggest that it may be justified to lower the commodity included in the minimum charge from the current volume of 12,000 gallons, Staff does not recommend making an adjustment at this time because the volume of water used by unmetered flat rate customers during winter periods are only estimates. Staff agrees with the Company that it would be more appropriate to revisit the issues of commodity included in its minimum charges, and possibly the seasonal rate differential when better historical consumption data is available.

Minimum Charge As a Function of Meter Size

The Commission specifically ordered the Company to address rate design for minimum charge based on meter sizes. Order No. 30484. Several small water utilities regulated by the Commission employ this approach including Eagle Water Company and Capitol Water Company. In response to Staff Production Request No. 22 regarding the use of meter size as a basis for minimum charges, the Company explained that as of October 31, 2009 various customer meters were installed in the distribution system as presented in the following table:

Meter Size	No. of Meters As of 10/31/09	Percent of Total Meters
5/8 - inch	382	10.25%
3/4 - inch	3,198	85.86%
1 - inch	107	2.87%
1 ½ -inch	11	0.30%
2 - inch	25	0.67%
4 - inch	2	0.05%
Total	**3,725**	**100.00%**

The 3/4-inch meter is the current service meter standard for the Company. All 5/8–inch meters are the oldest parts of the water system and will eventually be replaced by 3/4-inch meters. The 3/4–inch and smaller meters make up 96.11% of the meters in the system. The Company contends that it is not appropriate to change the minimum charge as a function of meter size until enough time has elapsed to allow two to three years of water usage data to accumulate. While Staff agrees with the Company that it may not be justified at this time to change the minimum charge of the standard Company meters (3/4-inch and smaller), it is appropriate to change the minimum customer charge and associated minimum commodity based on service meter sizes. Historic consumption data is not generally necessary to set the minimum customer charge as a function of meter size. Staff proposes to establish a minimum customer charge based on meter size as described below.

Rate Design

The Company proposes to maintain the current single block commodity rate design for all metered customers, and also maintain the first 12,000 gallons as commodity included in the minimum customer charge. The Company proposes the following rate design to collect the requested annual revenue requirement of $1,140,539:

Falls Water Rate Design - Company Proposal									
Customer Class	Number of Cust.	Minimum Charge	Volume in Base Rate	Rate per 1000 Gal. over Base	An. Usage in Excess of Base Vol. (x 1,000 gal)	Total Revenue	Percent Change from Existing	Average Annual Bill	Average Monthly Bill
Residential	3,460	$18	12,000	$ 0.601	548,891	$1,077,243	14.9%	$311.34	$25.95
Multi-Family	71	$18	12,000	$ 0.601	23,885	$29,691	8.5%	$418.18	$34.85
Commercial	62	$18	12,000	$ 0.601	33,684	$33,636	4.2%	$542.52	$45.21
Total	**3,593**				**606,460**	**$1,140,570**	**14.4%**		

Staff does not oppose using some of the elements of the rate structure proposed by the Company (*i.e.*, 12,000-gal minimum volume included in the minimum customer charge for the standard meter size). However, Staff believes it is more 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 as noted earlier; 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 (*e.g.*, 3/4-inch service versus a 4-inch service).

Staff therefore recommends a rate design based on meter sizes. Staff specifically recommends establishing the minimum customer charge and the minimum volume for each service meter size using a modified version of the customer meter-and-service equivalent ratios recommended by the American Water Works Association. See Attachment G. Staff modified the methodology to avoid rate shock for larger service meter customers (2-inch and 4-inch). The modified methodology reduces the differential between meter size based customer charges by applying a linear relationship (instead of curvilinear) for meter sizes from 5/8-inch to 4-inch as shown in Attachment G.

In response to Staff Production Request No. 49 regarding justification for using the 2008 excess water usage data, the Company contends that at the time the Application was prepared it believed that the 2008 usage by customers was most representative of the actual excess usage by metered customers. The Company did not believe that using consumption data prior to 2008 was reasonable because it was in the process of converting customers to metered services. In addition, the Company contends that an adjustment to "normalize" excess usage would require a detailed bill frequency analysis to produce a reasonable proxy for "normalized customer use."

Staff believes, however, that using 2008 excess use data is not a fair representation of typical usage for Falls Water customers. It is a traditional practice in rate design to use normalized water usage rather a single year or test year usage to provide the required revenue requirement. In response to Staff Production Request No. 49, the Company provided Staff a four-year average (2006 to 2009) of normalized excess water usage. Staff believes that the four-year average data, with some adjustments as noted later, is the appropriate normalized excess use data to use for residential customers since it incorporates variability of weather that affects water use.

For the commercial customers, Staff believes that it is more appropriate to use the three-year average (2007-2009) excess water use data. Staff reviewed the data submitted by the Company as presented in the Company's Worksheet (Response to Staff Production Request No. 49) and found that the yearly data did not show a lot of variability in the commercial class. In fact the 2008 excess water use data (33,684,000 gallons) was very close to the three-year average.

Staff recommends that the normalized excess water data for various customer classes as shown below be used in the rate design.

Type of Customers	Annual Normalized Excess Water Usage
Residential	563,537 (x 1,000 gal.) average, 2006-2009
Multi-Family	21,956 (x 1,000 gal.) average, 2006-2009
Commercial	33,578 (x 1,000 gal.) average, 2007-2009
Total	619,071 (x 1,000 gal.) all customers

Since the minimum volume used for the minimum customer charge is different for various meter sizes in the Staff-proposed rate design, additional adjustments were made to the total annual excess usage by subtracting the total volume of the difference between the minimum volume for the standard meter size (12,000 gallons) and minimum established volume for each meter size. The total net excess volume used in the rate design is 606,370 (x 1,000) gallons [(619,071-12,701) x 1,000].

The Company proposed using 3,593 as the total number of customers at the end of the 2008 test year for its rate design (Exhibit 5, Application). The Company later corrected this figure to 3,573. Since the total current number of customers is 3,638 as of November 11, 2009, as reported by the Company (Worksheet, Response to Staff Production Request No. 49), Staff believes that it is more appropriate to use this figure in the rate design since this is a known and measurable customer change.

Staff made another adjustment in the number of meters for each service meter size. The Company submitted conflicting total numbers of meters not conforming to the number of customers (3,638). As discussed earlier, the total number of meters was 3,725. For the purpose of calculating revenue in the proposed rate design, Staff applied the percent distribution of various meter sizes (3,725) to the total number of customers (3,638) to arrive at an adjusted number of meters/customers for each service meter size.

The Company is proposing a larger increase to the minimum charges and less on the commodity charges in its rate design. The Company justifies its proposal in an effort to remedy winter cash flow problems. The Company claims that its current monthly winter billings create a revenue shortfall of approximately $9,000 each month. The Company further contends that the decrease in commodity rate should not adversely affect the customer's water use. The Company also claims that the increase in the minimum customer charge will minimize the effect of the rate increase to customers during high use summer months.

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 charge decreases from 41% to 32%. The Company's proposal to put more emphasis on the basic minimum charge is generally contrary to the principle of promoting conservation since there is less opportunity and incentive for the customers to be more efficient if most of the total water system cost is collected from fixed charges. However, Staff reviewed past Commission orders relating to general rate cases filed by the Company and found that the Commission has allowed the Company to maintain a rate design with the ratio of fixed charges to the total revenue as high as 72% while the excess commodity charge provided 28%. Order No. 30027, Case No. FLS-W-05-01. Staff does not see a significant difference between the previous rate case and this one. Staff is also cognizant of the inherent problems of small water utilities in addressing cash flow issues during the period of low water customer usage. Given the Commission's past position on this matter, Staff does not oppose the Company's proposal in putting more emphasis on the basic customer charge.

Based on the Staff recommended revenue requirement of $1,089,007 and using the net normalized annual water usage of 606,370 (x1,000) gallons as discussed previously and the current total number of customers of 3,638, Staff proposes a minimum customer charge of $16.10/month including 12,000 gallons of commodity for customers with 5/8 and 3/4-inch meters and an excess commodity charge of $0.609/1000 gal. With the Staff's proposed rate structure, the average monthly bill for residential customers with Company standard meter sizes of 5/8-inch and 3/4-inch is approximately $24.14 per month or an increase of 5.9%.

There are multitudes of potential combinations using the above basic tariff structure to satisfy the Staff recommended revenue requirement. With the Staff recommended rate design, there is still an emphasis on the minimum charge which is approximately 66% of the total gross revenue compared to 68% under the Company's proposal and 59% under the present rate structure. The Staff proposal is shown on Attachment H.

Cancellation of Flat Rate Tariff

The Company proposes the current Residential Flat Rate Schedule R-2 be cancelled. Falls Water justifies this proposal based on the fact that 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. Therefore, Staff recommends that the Residential Flat Rate Schedule R-2 be cancelled.

Other Water System Operational Issues

Water Production, Consumption and Losses

Staff requested that the Company provide records of monthly water production and consumption data for calendar years 2006, 2007 and 2008. In response to Staff Production Request No. 6, the Company provided the water production data from all the wells and monthly volume of water sold to all customers. Based on this data, the monthly water losses were calculated including the average losses for the 3-year period (2006-2008). Attachment I. Staff believes that the calculated percent lost on a yearly basis could provide a reasonable basis for gauging the unaccounted-for water. The calculated average yearly system loss is 14.8%, 6.7% and 9.6% in 2006, 2007, and 2008, respectively, as presented in Attachment I. It is encouraging to note that the trend of water losses in the Company's water system in going down to a reasonable level. It appears that the Company is managing its system well in bringing down leaks and other losses to an acceptable level.

Water Quality

As part of its review of the water system, Staff also looked at the water quality issues to assure that the Company can adequately and reliably provide safe drinking water to customers. A Sanitary Survey was conducted by IDEQ on October 7, 2009 on the Company's water system. A Sanitary Survey is an onsite review of the water source, facilities, equipment, operation and maintenance to assure a public water system provides an adequate source of water supply, and is distributing safe drinking water. Based on the results of IDEQ's 2009 Sanitary Survey, the Falls Water public water system is in good order.

SCADA System

In Commission Order No. 30027 (Case No. FLS-W-05-01), the Commission ordered the Company to "enhance its SCADA software capabilities, to identify and better control its water loss and to improve delivery efficiency." In response to Staff Production Request No. 47, the Company indicated that it has purchased reporting software for its SCADA system and that

installation would be completed by the end of 2009. Staff believes that installation of the SCADA software will improve water delivery to its customers.

Non-Recurring Charge for Meter Testing

The Company proposes a new charge for testing customer meters. The Company claims that at the beginning of the summer irrigation period, many customers question the water usage being billed. As the number of customers has increased over the years, the Company states that it has spent more time testing meter accuracy. 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. The Company claims that the meter tests conducted rarely produce results outside the manufacturer's specification. In response to Staff Production Request No. 46, the Company indicated that of the meters tested for the last two years, only one meter out seven in 2007 and none out of 13 in 2008 showed inaccurate readings and outside the manufacturer's accuracy specification of plus/minus 1.5%. The Company proposes to charge a meter test fee of $10.00 to customers who want their meter tested for accuracy. The fee would only be assessed if the results of the tests are within the manufacturer's specification of accuracy. This would place the burden of cost on the customers responsible and remove it from being wholly subsidized by all customers. However, 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. This charge will be applicable when a customer requests the Company to test the accuracy of a meter in the case of a disputed bill. The Commission has allowed a similar non-recurring charge under United Water Company's tariffs. Staff recommends that the Commission approve the Company's proposal to allow a Meter Test at Customer Request Fee in its non-recurring tariff.

Customer Notices and Press Releases

The Company's Application included a copy of the customer notice and the press release. The Company indicates that it mailed a copy of the customer notice to each customer coincident with the filing of the Application on August 5, 2009, and that it emailed a copy of the press release to the local newspaper, the Post Register in Idaho Falls, on August 3, 2009. The notice

and the press release meet the requirements of the Idaho Public Utilities Commission Rules of Procedure. IDAPA 31.01.01.000 *et seq.*

Public notification for a customer workshop was accomplished by the Commission through Notice and a Press Release dated September 18, 2009. The workshop was held on Thursday October 8, 2009, in Idaho Falls, and there were no attendees.

Customer Relations

As of February 5, 2010, the Commission had received fourteen (14) written comments from twelve (12) customers regarding this case. The majority of comments reflect concern about the large average increase for residential customers, particularly considering the customers' limited or fixed incomes and the overall economic situation in Idaho. Other comments submitted expressed concern about rate structure and water quality.

Since January 1, 2008, the Commission has received fourteen (14) complaints and inquiries. Four customers expressed concern about the proposed rate increase in this rate case and subsequently submitted written comments for the record. Other areas of concern include credit and collection issues, *e.g.*, disconnection of service for non-payment and billing issues.

Nonrecurring Charges

The Company is requesting a $20.00 returned check charge and a late payment charge, as more particularly described below.

Returned Check Charges

In its Application, the Company proposes to implement a charge of $20.00 that applies when a customer's check or bank draft is returned by the bank for an appropriate reason, including non-sufficient funds. In support of its request, the Company states that while it currently uses an outside agency to collect returned checks, the Company has sufficient manpower to contact customers directly and collect monies owed. The Company did not state if it was going to discontinue use of the outside agency for collection efforts. The Company's General Rules and Regulations for Small Water Utilities, dated May 31, 1990, allows for a returned check charge under paragraph 13.12. The paragraph states that the customers will be "charged a returned check fee by the Company in an amount specified in the then current

summary of rules, rates and information issued by the Company and distributed to new customers and all customers annually."

Staff interprets this paragraph as a reference to the annual rules summary required under Rule 700, of the Utilities Customer Relations Rules (UCRR). However, the Company's Annual Rules Summary submitted by the Company in response to a production request does not specify a returned check charge amount. Staff recognizes that a returned check charge is appropriate to discourage customers from paying with bad checks and allows partial recovery of the costs incurred in the collections process. The proposed $20.00 charge is consistent with what other companies charge and meets statutory requirements. Staff recommends approval of the $20.00 returned check charge.

Late Payment Charge

The Company has requested a late payment charge of one percent (1%) per month of the past due balance. The Company has stated that it reads customers' meters in the middle of the month (unless conditions prohibit), prepares the bills and mails them before the end of the month, and utilizes a billing due date of the 15th of the following month. The Company also stated that on average twenty percent (20%) of its customers have a past due balance, based on its Accounts Receivables at month end closing. In its Application, the Company did not specify the terms under which late payment charges would apply.

Staff recognizes that a late payment charge is appropriate to reduce the costs incurred in the collection of past due debt and improve cash flow by encouraging timely payment of bills. 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. Staff recommends a late payment charge based on the unpaid balance at the time of the next billing date. The one percent (1%) late payment fee is consistent with what other companies charge.

Company Documentation

Company Tariff

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. The Company needs to update its tariff to conform to the current Model Tariff and include the Uniform Main Extension Rules.

Staff is willing to provide a copy of the Uniform Main Extension Rules in electronic format for the Company. Staff recommends that the Company revise its Tariff to include its rate schedules, the General Rules and Regulations for Small Water Utilities, and the Uniform Main Extension Rule in a format consistent with the Model Tariff. Staff recommends these revisions be filed within 60 days of the Commission's final order in this case.

Billing Documentation

The Company sends monthly billing statements, even when it cannot access the customer's meter during the winter months because of snow accumulation. As allowed by the UCRR, the Company bills the customer the minimum charge when it is unable to access a meter. After the next reading, the Company aggregates the 12,000 gallon monthly allowance for each month that no meter reading is taken and bills for all usage exceeding the total aggregated allowance. If, for example, the customer has used more than 36,000 gallons (12,000 gallons x 3 = 36,000) over the past three months, he or she will be billed for usage exceeding 36,000 gallons in the first monthly bill issued after a meter reading is actually taken. Staff has no problem with this billing practice. However, the billing statements submitted in response to production requests do not separate commodity charges from the monthly minimum charge. In the example above, the excess amount for the previous month's usage would appear as part of the current billed amount. The billing statement does not meet the requirements of Rule 201 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. Staff recommends that the Company revise its billing statements to comply with UCRR requirements.

Termination Notification

In response to production requests regarding the termination process, the Company submitted copies of its initial Notice of Intent to Terminate Service, and its Final Water Shut-Off Notices. The notices submitted do not comply with the requirements in Rule 305 of the UCRR because the notices specifically limit the customer to one payment arrangement. Staff is willing to work with the Company to develop a final notice to comply with the requirements of Rule 305

and Staff recommends that the Company revise termination notices to comply with UCRR requirements.

Reconnection after Termination

The termination notices do not identify the normal business hours for the Company and restrict the hours for reconnections after involuntary disconnection to no later than 7:00 pm. The Company Tariff on file with the Commission sets a charge of $40.00 for reconnection after normal business hours, but does not mention the time limitation of 7:00 pm for reconnections outside of normal business hours that are contained in the Company's termination notices or annual rules summary.

Rule 311.03 of the UCRR states "Each utility shall have personnel available who are authorized to reconnect service if the conditions cited as grounds for termination are corrected to the utility's satisfaction. Service shall be reconnected as soon as possible, but no later than twenty-four (24) hours after the utility's conditions are satisfied and reconnection is requested."

The Company has not provided any rationale for refusing to reconnect service after 7:00 pm. Staff believes water service is as essential as gas or electric service and Staff recommends the Company revise its termination policy to allow for reconnection as soon as possible, especially in the case of medical emergency or accidental disconnection. Staff also recommends the Company have personnel available for reconnection on weekends and holidays to comply with the current Commission rules and regulations. Staff also recommends that the Company revise its documentation to reflect these requirements and provide contact information to customers through billing statements and the annual summary.

Annual Rules Summary

In response to production requests, the Company submitted a copy of its annual rules summary. This summary does not include the Commission contact information as required under Rule 701 of the UCRR. Sample summaries are available and Staff is willing to work with the Company to create a summary. Staff recommends that the Company revise its annual rules summary to be in compliance with the Commission's Rules.

Complaint Records

Under the UCRR Rule 401 the Company is required to maintain a record of all customers calling to complain or request a conference. The Company has previously stated that when

customers call in with a problem, the Company staff usually resolves the problem at that time, and it does not keep a formal record of separate complaints received. Staff recommends that the Company create and maintain a system to record and maintain customer complaints and requests for a conference as required by Rule 401.

STAFF RECOMMENDATIONS

Staff makes the following recommendations:

1. Staff recommends use of a 2008 test year.
2. Staff recommends a 12% return on equity and an overall return on rate base of 4.74%.
3. Staff recommends a rate base of $1,442,759.
4. Staff recommends a revenue requirement of $1,093,807.
5. Staff recommends acceptance of the Company proposed expense adjustments, with the exception of Office Rent.
6. Staff recommends a decrease in Water Testing by $5,871.
7. Staff recommends a decrease in Office & Warehouse Rent Expense by $3,964.
8. Staff recommends an increase in Non-Utility Income from the rental of property that has been included in plant in service of $4,800.
9. Staff recommends a decrease in Depreciation Expense of $10,439.
10. Staff recommends a decrease in Water Rights of $285,114.
11. Staff recommends a decrease in Land of $80,000 and an increase in Plant Held for Future Use of $80,000.
12. Staff recommends a decrease in Well Structures & Improvements of $8,000.
13. Staff recommends an increase in Wells of $2,810.
14. Staff recommends an increase in Pumps & Accessories of $2,668.
15. Staff recommends a decrease in Meters of $48,177.
16. Staff recommends an increase in Office Equipment of $1,100.
17. Staff recommends a decrease in Accumulated Depreciation of $2,252.
18. Staff recommends a decrease in Working Capital of $1,229.
19. Staff recommends that the Commission set rates to recover an annual revenue requirement of $1,093,807. This represents $1,089,007 from rates and $4,800 from rental income. This is an increase of $91,964 over test year revenues and results in an average rate increase of 9.18%.

20. Staff recommends that the Commission approve the new rates proposed by Staff with rate design based on the service meter size with specific minimum charge at specific minimum volume allowance and commodity charge for all service meter sizes.
21. Staff recommends that the Company address other rate design issues (*i.e.*, minimum volume charge for its service meter standard size, summer and winter rates) when it files its next rate case.
22. Staff recommends that the Company's Residential Flat Rate Schedule R-2 be cancelled.
23. Staff recommends a non-recurring charge of $10.00 for testing meters for accuracy if requested by a customer. Such fee is waived if test results are not within the manufacturer's 1.5% specification of accuracy.
24. Staff recommends approval of a $20.00 returned check charge and a one percent (1%) late payment charge applicable to balances owing at the time of the next monthly billing.
25. Staff recommends that the Company review and update all notices, bills and other documents to be consistent with Commission's Rules and Regulations, including the Company Tariff with all Schedules, General Rules and Regulations and Main Line Extension Rules, monthly billing statements, initial notice of termination, final notice of termination, and annual rules summary. This should be accomplished within 60 days of the Commission's final order.
26. Staff recommends that the Company create and maintain a log for customer complaints and requests for a conference.

Respectfully submitted this 11TH day of February 2010.

Kristine A. Sasser
Deputy Attorney General

Technical Staff: Kathy Stockton
Gerry Galinato
Chris Hecht

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

		A Company Pro forma	B Staff Adjustments	C Staff 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	997,042.55		$ 997,042.55
6	414 · Gain (Loss) on Property	-		$ -
7	Total Income	997,042.55		$ 997,042.55
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 Utilites 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	9,865.63	$ (5,870.63)	$ 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	43,684.04	$ (3,964.04)	$ 39,720.00
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	904,104.36		$ 894,269.69
45	Net Ordinary Income	92,938.19		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
50	Other Expense			
51	403 · Depreciation Expense	74,793.25	$ (10,439.34)	$ 64,353.91
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	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
63	Net Other Income	(121,082.72)		(105,843.38)
64	Net Income	**(28,144.52)**		**(3,070.52)**

Attachment A
Case No. FLS-W-09-1
Staff Comments
02/11/10

Falls Water Company
Case No. FLS-W-09-01
Adjusted Water Testing Cost for Well No. 9

Company Proposed Adjustment

Source	Analyte	Frequency*	No. of Tests	Cost per test	Total costs	Cost/Yr
Well #9	Nitrate	Annually	9	$ 15.00	$ 135.00	**$ 15.00**
Well #9	Nitrite	Once in 9 years	1	$ 15.00	$ 15.00	**$ 15.00**
Well #9	Primary Inorganics	Annually	9	$ 195.00	$ 1,755.00	**$ 195.00**
Well #9	Synthetic Organics	Annually	9	$ 1,140.00	$ 10,260.00	**$ 1,140.00**
Well #9	Sodium	Annually	9	$ 25.00	$ 225.00	**$ 25.00**
Well #9	Arsenic	Annually	9	$ 25.00	$ 225.00	**$ 25.00**
Well #9	Volatile Organics	Annually	9	$ 190.00	$ 1,710.00	**$ 190.00**
Well #9	Gross Alpha	Annually	9	$ 95.00	$ 855.00	**$ 95.00**
Well #9	Radium 226	Annually	9	$ 165.00	$ 1,485.00	**$ 165.00**
Well #9	Radium 228	Annually	9	$ 165.00	$ 1,485.00	**$ 165.00**
Well #9	Uranium	Annually	9	$ 125.00	$ 1,125.00	**$ 125.00**
					Total	**$ 2,155.00**

Staff Proposed Adjustment

Well #9	Nitrate	Annually	9	$ 15.00	$ 135.00	**$ 15.00**
Well #9	Nitrite	Once in 9 years	1	$ 15.00	$ 15.00	**$ 15.00**
Well #9	Primary Inorganics	3 times**	3	$ 195.00	$ 585.00	**$ 65.00**
Well #9	Synthetic Organics	3 times***	3	$ 1,140.00	$ 3,420.00	**$ 380.00**
Well #9	Sodium	3 times**	3	$ 25.00	$ 75.00	**$ 8.33**
Well #9	Arsenic	3 times**	3	$ 25.00	$ 75.00	**$ 8.33**
Well #9	Volatile Organics	3 times**	3	$ 190.00	$ 570.00	**$ 63.33**
Well #9	Gross Alpha	2 times****	2	$ 95.00	$ 190.00	**$ 21.11**
Well #9	Radium 226	2 times****	2	$ 165.00	$ 330.00	**$ 36.67**
Well #9	Radium 228	2 times****	2	$ 165.00	$ 330.00	**$ 36.67**
Well #9	Uranium	2 times****	2	$ 125.00	$ 250.00	**$ 27.78**
					Total	**$ 677.22**

Difference **$ 1,477.78**

*9-year cycle

**IDEQ requires one initial test and 2 additional rounds of tests during the 9-year cycle.

***IDEQ requires 3 rounds of tests for Atrazine and 2 rounds for other pesticides and herbicides.

****IDEQ requires an initial test and an additional round following the quarter of the initial test during the 9-yr cycle.

Attachment B
Case No. FLS-W-09-1
Staff Comments
02/11/10

Commission Staff
Calculation of Rate Base
for Falls Water Company

		A Company Pro Forma Rate Base Total	B Staff Pro Forma Adjustments	C Staff Pro Forma Rate Base
	Plant in Service			
1	303 - Land & Land Rights	$ 2,261,461.45	$ (365,113.80)	$ 1,896,347.65
2	304 - Well Structures & Improvements	$ 486,931.50	$ (8,000.00)	$ 478,931.50
3	307 - Wells	$ 400,430.88	$ 2,809.80	$ 403,240.68
4	310 - Generators	$ 16,693.04		$ 16,693.04
5	311 - Pumps & Accessories	$ 395,779.98	$ 2,668.09	$ 398,448.07
6	320 - Separators	$ 23,625.85		$ 23,625.85
7	331 - Water Mains	$ 906,136.08		$ 906,136.08
8	334 - Meters	$ 1,003,860.59	$ (48,177.24)	$ 955,683.35
9	335 - Hydrants	$ 50,370.81		$ 50,370.81
10	340 - Office Equipment	$ 35,160.47	$ 1,099.97	$ 36,260.44
11	341 - Transportation Equipment	$ 60,606.64		$ 60,606.64
12	343 - Tools & Equipment	$ 24,049.05		$ 24,049.05
13	Total Plant in Service	$ 5,665,106.34	$ (414,713.18)	5,250,393.16
14	Less Accumulated Depreciation	724,310.54	$ (2,251.96)	$ 722,058.58
15	Net Plant in Service	$ 4,940,795.80		$ 4,528,334.58
	Less Contributions in Ad 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	Net Contributions in Aid of Construction	$ 3,197,359.64		$ 3,197,359.64
19	Net Plant in Service	$ 1,743,436.16		$ 1,330,974.94
20	Working Capital (1/8 of Operation and Maintenance Expense)	$ 113,013.04	$ (1,229.33)	$ 111,783.71
21	**Rate Base**	$ 1,856,449.20		**$ 1,442,758.65**

Attachment C
Case No. FLS-W-09-1
Staff Comments
02/11/10

Commission Staff
Pro Forma Adjustments
for Falls Water Company

Rate Base		
Decrease Account 303 - Land & Land Rights	-$285,113.80	Adjustment decreases rate base
Decrease Account 304 - Land & Land Rights	-$80,000.00	Adjustment decreases rate base
Decrease Account 304 - Well Structures & Improvements	-$8,000.00	Adjustment decreases rate base
Increase Account 307 - Wells	$2,809.80	Adjustment increases rate base
Increase Account 311 - Pumps & Accessories	$2,668.09	Adjustment increases rate base
Decrease Account 334 - Meters	-$48,177.24	Adjustment decreases rate base
Increase Account 340 - Office Equipment	$1,099.97	Adjustment increases rate base
Total Plant in Service Adjustments	-$414,713.18	
Decrease Accumulated Depreciation	-$2,251.96	Adjustment increases rate base
Decrease Working Capital	-$1,229.33	
Total Rate Base Adjustments	-$413,690.55	

Revenue and Expenses		
Decrease Water Testing	$5,870.63	Adjustment increases net income
Decrease Office & Warehouse Rent Expense	$3,964.04	Adjustment increases net income
Increase Non-Utility Income	$4,800.00	Adjustment increases net income
Decrease Depreciation Expense	$10,439.34	Adjustment increases net income
Total Income Statement Adjustments	$25,074.01	

Attachment D
Case No. FLS-W-09-1
Staff Comments
02/11/10

COMMISSION STAFF
CALCULATION OF REVENUE REQUIREMENT
For FALLS WATER COMPANY

		(A)	(B)	(C)
1	Rate Base	$ 1,442,758.65		
2	Rate of Return	4.74%		
3	Net Operating Income Requirement	$ 68,433.64		
4	Net Operating Income Realized	(3,070.52)		
5	Net Operating Income Deficiency	$ 71,504.16		

	Revenue Requirement Increase	Non-Tax	Taxable
6	Overcome Loss	$ 3,070.52	
7	Subject to Income Tax		$ 68,433.64
8	Gross-up Factor	102%	130%
9	Revenue Increase Requirement	$ 3,130.48	$ 88,833.83
10	Total Revenue Increase Required		$ 91,964.31
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**		**9.18%**
15	Total Revenue Requirement		$ 1,093,806.86
16	Revenue for Rate Design		**$ 1,089,006.86**

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%

Attachment E
Case No. FLS-W-09-1
Staff Comments
02/11/10

FALLS WATER COMPANY
CASE NO. FLS-W-09-01
AVERAGE WINTER USAGE (January-April; November-December)

2006	Unmetered Residential-Gal	Metered Residential-Gal	Multi-Family-Gal	Commer-cial-Gal		
Jan	14,625,000	14,654,000	552,000	1,159,000		
Feb	8,670,000	14,654,000	749,000	1,246,000		
Mar	14,700,000	14,654,000	595,000	1,248,000		
Apr	17,940,000	14,654,000	568,000	991,000		
Nov	7,960,000	22,324,000	1,876,000	2,012,000		
Dec	7,960,000	22,324,000	1,141,000	1,153,000		
Total	71,855,000	103,264,000	5,481,000	7,809,000	188,409,000	gallons
Average Number of Customers in 2006					3,038	
Average Winter Usage per customer per month					**10,336**	**gallons**

2007	Unmetered Residential-Gal	Metered Residential-Gal	Multi-Family-Gal	Commer-cial-Gal		
Jan	8,000,000	22,324,000	1,249,000	1,159,000		
Feb	8,040,000	22,324,000	1,131,000	1,147,000		
Mar	8,040,000	22,324,000	1,024,000	1,047,000		
Apr	7,980,000	22,324,000	1,444,000	1,196,000		
Nov	4,980,000	22,416,000	1,872,000	1,336,000		
Dec	4,890,000	22,416,000	1,367,000	1,320,000		
Total	41,930,000	134,128,000	8,087,000	7,205,000	191,350,000	gallons
Average number of customers in 2007					3,437	
Average winter usage per customer per month					**9,279**	**gallons**

2008	Unmetered Residential-Gal	Metered Residential-Gal	Multi-Family-Gal	Commer-cial-Gal		
Jan	4,800,000	22,416,000	1,604,000	2,579,000		
Feb	5,390,000	22,416,000	1,115,000	1,287,000		
Mar	4,350,000	22,416,000	1,217,000	1,196,000		
Apr	4,410,000	22,416,000	899,000	784,000		
Nov	660,000	22,668,000	1,346,000	1,379,000		
Dec	120,000	22,668,000	1,065,000	975,000		
Total	19,730,000	135,000,000	7,246,000	8,200,000	170,176,000	gallons
Average number of customers in 2008					3,516	
Average winter usage per customer per month					**8,067**	**gallons**

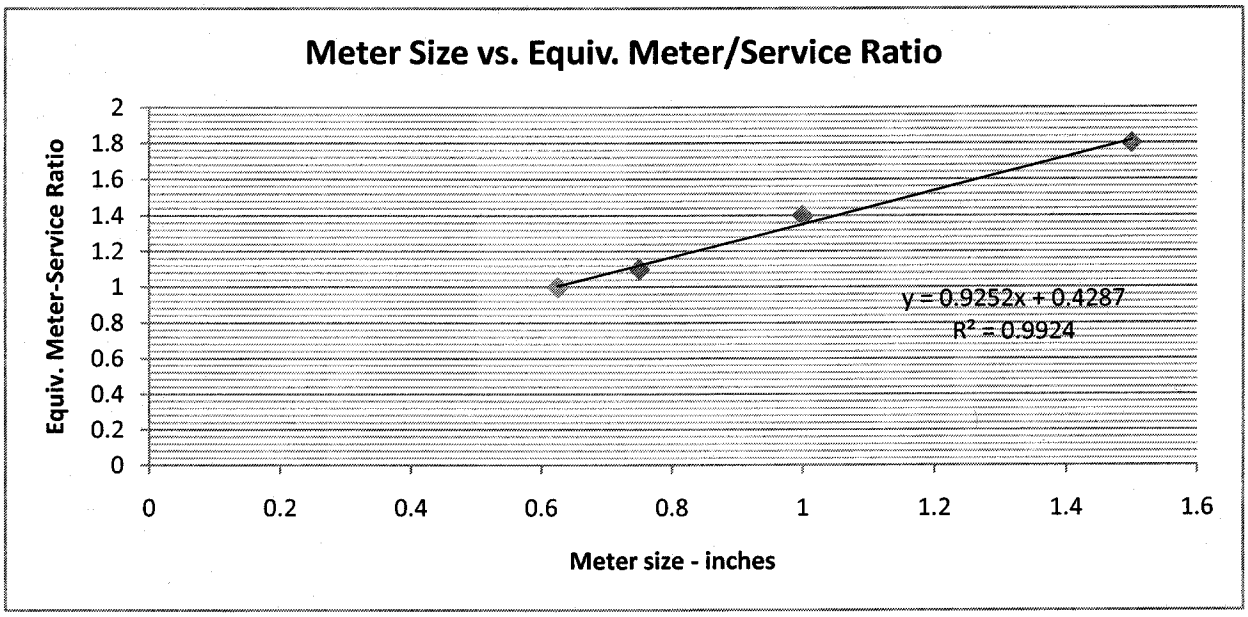
3-year Ave	**9,227**	**gallons**

Attachment F
Case No. FLS-W-09-1
Staff Comments
02/11/10

Falls Water Case No. FLS-W-09-1
Typical Customer Meter-and Service Equivalent Ratios

Meter Size (Inches)	Equiv. Meter & Service Ratio*	**Adj. Equiv. Meter & Service Ratio****	
5/8-inch	1	**1**	
3/4-inch	1.1	**1.1**	
1-inch	1.4	**1.4**	
1 ½-inch	1.8	**1.8**	
2-inch	2.9	**2.3**	***
3-inch	11		
4-inch	14	**4.1**	***
6-inch	21		
8-inch	29		

*From American Water Works Association's Manual of Water Supply Practices.
**Used in Falls Water Rate Design.
***Calculated ratio using the regression equation below.



Attachment G
Case No. FLS-W-09-1
Staff Comments
02/11/10

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

Staff Recommended Revenue Requirement	**$1,089,007**
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	16,800	$ 22.54	$ 28,400.40
1 1/2 inch	11	21,600	$ 28.98	$ 3,825.36
2 inch	24	27,600	$ 37.03	$ 10,664.64
4 "	2	49,200	$ 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)	12,701
Net volume of excess usage (x 1,000 gals)	606,370
Commodity charges for all meter sizes ($/1,000 gals)	0.609
Total Commodity Revenue	**$ 369,279.45**

Total Revevue (minimum and commodity charges)	**$ 1,089,181**
Revenue over (under) Revenue Requirement	**$174**
Various Charges as a % of Gross Revenue	
Minimum Charge	**66%**
Commodity Charge	**34%**

Attachment H
Case No. FLS-W-09-1
Staff Comments
02/11/10

FALLS WATER COMPANY
CASE NO. FLS-W-09-01

VOLUME OF WATER PRODUCED, SOLD AND UNACCOUNTED

MONTH	2006			
	Volume Pumped-gal	Volume Sold-gal	Volume Lost-gal	Percent Lost
Jan	35,673,883	31,100,000	4,573,883	12.8%
Feb	28,632,896	25,319,000	3,313,896	11.6%
Mar	37,350,051	31,197,000	6,153,051	16.5%
Apr	40,800,174	34,153,000	6,647,174	16.3%
May	126,764,294	63,069,000	63,695,294	50.2%
Jun	156,091,476	128,010,000	28,081,476	18.0%
Jul	191,500,902	148,325,000	43,175,902	22.5%
Aug	183,464,418	173,876,000	9,588,418	5.2%
Sep	104,249,331	128,149,000	-23,899,669	-22.9%
Oct	43,291,448	49,111,000	-5,819,552	-13.4%
Nov	42,902,351	34,172,000	8,730,351	20.3%
Dec	40,451,849	32,578,000	7,873,849	19.5%
Total	1,031,173,073	879,059,000	152,114,073	14.8%

MONTH	2007			
	Volume Pumped-gal	Volume Sold-gal	Volume Lost-gal	Percent Lost
Jan	37,973,979	32,732,000	5,241,979	13.8%
Feb	39,411,117	32,642,000	6,769,117	17.2%
Mar	34,134,309	32,435,000	1,699,309	5.0%
Apr	45,195,635	32,944,000	12,251,635	27.1%
May	80,351,314	75,236,000	5,115,314	6.4%
Jun	146,140,138	124,650,000	21,490,138	14.7%
Jul	185,958,449	183,460,000	2,498,449	1.3%
Aug	189,650,722	200,468,000	-10,817,278	-5.7%
Sep	149,642,204	139,875,000	9,767,204	6.5%
Oct	78,497,311	77,322,000	1,175,311	1.5%
Nov	39,499,550	30,604,000	8,895,550	22.5%
Dec	36,877,373	29,993,000	6,884,373	18.7%
Total	1,063,332,101	992,361,000	70,971,101	6.7%

MONTH	2008			
	Volume Pumped-gal	Volume Sold-gal	Volume Lost-gal	Percent Lost
Jan	37,550,262	31,399,000	6,151,262	16.4%
Feb	38,942,750	30,208,000	8,734,750	22.4%
Mar	34,933,081	29,179,000	5,754,081	16.5%
Apr	36,362,349	28,509,000	7,853,349	21.6%
May	54,827,537	46,505,000	8,322,537	15.2%
Jun	81,497,299	77,790,000	3,707,299	4.5%
Jul	198,846,136	192,972,000	5,874,136	3.0%
Aug	216,662,304	219,564,000	-2,901,696	-1.3%
Sep	170,437,211	172,021,000	-1,583,789	-0.9%
Oct	104,224,746	84,479,000	19,745,746	18.9%
Nov	50,624,749	26,053,000	24,571,749	48.5%
Dec	41,223,182	24,828,000	16,395,182	39.8%
Total	1,066,131,606	963,507,000	102,624,606	9.6%

MONTH	3-Year Average Losses (2006-2008)			
	Volume Pumped-gal	Volume Sold-gal	Volume Lost-gal	Percent Lost
Jan	111,198,124	95,231,000	15,967,124	14.4%
Feb	106,986,763	88,169,000	18,817,763	17.6%
Mar	106,417,441	92,811,000	13,606,441	12.8%
Apr	122,358,158	95,606,000	26,752,158	21.9%
May	261,943,145	184,810,000	77,133,145	29.4%
Jun	383,728,913	330,450,000	53,278,913	13.9%
Jul	576,305,487	524,757,000	51,548,487	8.9%
Aug	589,777,444	593,908,000	-4,130,556	-0.7%
Sep	424,328,746	440,045,000	-15,716,254	-3.7%
Oct	226,013,505	210,912,000	15,101,505	6.7%
Nov	133,026,650	90,829,000	42,197,650	31.7%
Dec	118,552,404	87,399,000	31,153,404	26.3%
Total	3,160,636,780	2,834,927,000	325,709,780	10.3%

Attachment I
Case No. FLS-W-09-1
Staff Comments
02/11/10

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 11TH DAY OF FEBRUARY 2010, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. FLS-W-09-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

K. SCOTT BRUCE
FALLS WATER COMPANY, INC.
2180 N. DEBORAH DR.
IDAHO FALLS, ID 83401
E-MAIL: scott1@fallswater.com

ROBERT E SMITH
2209 N BRYSON RD
BOISE ID 83713
E-MAIL: utilitygroup@yahoo.com

SECRETARY