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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)	
FALLS WATER COMPANY FOR AN ORDER)	CASE NO. FLS-W-12-01
AUTHORIZING INCREASES IN THE)	
COMPANY'S RATES AND CHARGES FOR)	COMMENTS OF THE
WATER SERVICE.)	COMMISSION STAFF
)	

The Staff of the Idaho Public Utilities Commission comments as follows on Falls Water Company's Application.

BACKGROUND

On January 30, 2012, Falls Water Company applied to the Commission for authority to increase its total revenue requirement by \$295,060 or 26.52%. Application at 1, 4. The Company proposes to increase its metered rates and reduce the volume allowance included in the customer charge as follows:

Meter Size	Current Monthly Rate	Proposed Monthly Rate	% Change
3/4" or smaller	\$16.10 for up to 12,000 gallons	\$19.18 for up to 5,000 gallons	19.1% increase
1"	\$22.54 for up to 17,000 gallons	\$26.85 for up to 7,000 gallons	19.2% increase
1½"	\$28.98 for up to 22,000 gallons	\$34.52 for up to 9,000 gallons	19.1% increase
2"	\$37.03 for up to 28,000 gallons	\$44.11 for up to 12,000 gallons	19.1% increase
4"	\$66.01 for up to 49,000 gallons	\$78.64 for up to 20,000 gallons	19.1% increase
Commodity Rate	\$ 0.611 per 1,000 gallons	\$ 0.67 per 1,000 gallons	9.7% increase

Id. at 2 and 4.

The Company says the average 3/4-inch metered-customer's bill will increase 26.8%; the average 1-inch metered-customer's bill will increase 24.3%; the average 1 1/2-inch metered-customer's bill will increase 26.1%; the average 2-inch metered-customer's bill will increase 27.8%; and the average 4-inch metered-customer's bill will increase 28.1%. *Id.* at 4-5. The Company also says the proposed rate design will produce \$1,407,749 in revenues, which is within \$78 of the requested revenue requirement. *Id.*

STAFF REVIEW

System Description

Falls Water serves over 3,900 residential and commercial customers. Application at 2. The Company's water supply sources consist of eight production wells that normally provide the daily peak flow during heavy water demand in summer. The system lacks storage reservoirs, although some of the pumping units are equipped with hydro-pneumatic tanks to supply water during low demand. The system also lacks booster pumps. Water is delivered to residential and commercial customers using 5/8-inch to 4-inch service meters. Approximately 96% of all customers have a 3/4-inch or less service meter size.

Summary of Staff Adjustments

The Company seeks a \$295,060 revenue requirement increase. The Company calculates the increase using a \$2,545,288 rate base, a 12% return on equity ("ROE") with an overall 7.75% rate of return, \$933,351 in operating expenses, plus \$215,195 in net other expenses.

Staff accepts the Company's proposed capital structure and cost of debt at 3.25%. Staff proposes an 11% ROE with an overall 7.23% rate of return and a rate base of \$1,821,140.

Staff proposes to adjust Plant in Service (PIS) in two ways. First, Staff adjusts the beginning balances of the reported individual PIS accounts for Land and Land Rights. Second,

Staff adjusts the amount recommended to be included in rates for the 2012 meter project. The meter adjustment is the single largest adjustment. It impacts rate base and, consequently, the dollar amount calculated for return and depreciation.

Staff recommends adjusting annual operating expenses by \$123,132. This total adjustment includes an \$80,739 depreciation adjustment. It also includes \$42,393 in annual operating expense adjustments for electrical power, chemicals, rental of property and rental of equipment. The rental adjustments involve the treatment of various affiliated-party transactions. The remaining difference between the Company-proposed increase and the Staff-recommended increase is the proformed revenue generated from existing rates in the test year.

Plant in Service

The Company reported PIS with an adjusted total of \$6,606,672 as of December 31, 2011. Staff recalculated the year-end balances for each PIS account, and tested additions and retirements since the last general rate case in 2009 (FLS-W-09-01). Staff believes that all PIS account balances are reasonable except for: (1) Account No. 303-Land and Land Rights, and (2) Account No. 334-Meters. Attachment A shows Staff adjustments to these two accounts. The \$92,518 adjustment for Land and Land Rights reflects a Commission-approved adjustment for plant held for future use. *See* Order No. 31022. This amount was not properly carried forward from the 2009 rate case. The detailed adjustment to Account No. 303 is shown on Attachment B. Attachment A also reduces the \$839,878 Meter Project balance in 2012 by \$713,542. Attachment C details Staff's meter-adjustment calculation. The Staff-recommended adjusted PIS account balances of \$5,800,612 as of December 31, 2011 are shown in the final column, line 13 of Attachment A.

Service Meters

The Company began replacing manual-read meters with touch-read meters in 1993. The Company also installed touch-read meters whenever it received requests for new connections in newer subdivisions. The Company then gradually installed touch-read meters for customers without meters with the goal of establishing a fully-metered system. During the Company's 2005 rate case (FLS-W-05-01), the Company asked the Commission to approve metering for the Company's 585 remaining unmetered residential customers over a six-year period. In Order No. 30027, the Commission encouraged the Company to more rapidly complete metering the entire

system, stating: "We would like to see the meters purchased and installed sooner rather than later, preferably much sooner than six years." Consequently, the Company completed metering unmetered customers in 2008. *See Attachment D (showing the total meters installed annually).*

In 2007, the Company began converting its commercial and multi-residential customers from touch-read to automated meter reading (AMR) radio-read meters. This conversion allowed the Company to read the service meters monthly throughout the year. Previously, these meters were only read monthly from April through the end of October. Because the Company's previously installed touch-read service meters were already set up for this transition, Meter Transceiver Unit (MXU) radio transmitters were the only extra components needed to complete the AMR meter conversion.

In Case No. FLS-W-09-01, the Company included the cost in rate base to buy and install 300 new replacement meters and 300 radio transmitters. In Order No. 31022, the Commission allowed 81 meters and 81 transmitters in the rate base because the remaining units were not yet installed and did not meet the "used and useful" criteria for cost recovery.

After the Company's last rate case in 2009, the Company decided to fully convert its service meters from a touch-read to an AMR system. This decision caused the Company to make significant new investments for replacing existing manually-read meters with touch-read meters (604), installing MXU radio transmitters in all meters not yet equipped with MXU's (3,300), and acquiring a Vehicle Gateway Base (VGB) Station to automatically read meters from a vehicle. The Company also upgraded its handheld touch-read reading devices (two units) to radio-read reading units. The Company finished installing all AMR meters by January 31, 2012. *See Attachment D (showing the total meters installed).*

The Company proposes to increase rate base by \$839,878 as a result of the AMR conversion project. Application at 2. If the additional investments for meter replacements and radio transmitters were included (\$46,571 in 2010 and \$17,962 in 2011), the total would be \$904,411.

Staff asked the Company to explain why it converted its manual/touch-read meters to an AMR system. As part of the explanation, the Company was to include any comparative analysis (e.g., cost benefit analysis, present worth or annual costs) it performed showing that converting to an AMR system was more cost effective than using the existing manual/touch-read meters or other alternatives. *See Staff Production Request No. 3.* The Company responded that before the AMR conversion project, the Company used a mixture of manual-read, touch-read and AMR

radio-read meters. The manual-read meters were at least 18 years old and many were 25 years old. The Company planned to replace the manual-read meters because the accuracy of positive displacement meters decreases with age. The Company confirmed it started migrating to an AMR system in the fall of 2007 by installing MXU radio transmitters in commercial and multi-family residential accounts. AMR meters were also installed in new construction accounts.

The Company said it converted to AMR meter technology to enable it to read meters year-round and thereby promote better water loss control during the winter. The Company explained that it does not currently read meters in the winter, and that customers who experienced excess winter water usage due to undiscovered leaks were not pleased with their corresponding, high April water bills on top of their repair expenses. The Company claims that if it can read meters year-round, it can provide customers with better usage information in their winter bills and inform them of the true expense of plumbing leaks that are not quickly repaired.

Staff reviewed all the available documents presented by the Company. Based on this review, Staff concedes that there are some non-financial benefits to the Company and its customers as noted above. However, the Company has failed to show that it was economically and financially beneficial to its customers for the Company to invest significant capital to convert all of its customer meters to an AMR system. In Staff's opinion, it was unreasonable and unnecessary for the Company to convert all of its meters to AMR meters and, consequently, the Company's capital investment was imprudent and not recoverable through customer rates.

Staff recommends removing \$713,542 of the total \$839,878 cost of the 2012 meter project from rate base because the Company spent more to acquire and install an additional 3,300 MXU's and buy related meter monitors than is economically justified. Staff supports recovery of \$126,336 for new touch-read meters. As previously noted, in Staff Production Request No. 3 Staff asked the Company to explain why it converted its manual-read meters to an AMR system and to include, as part of that explanation: "any comparative economic analysis (e.g., cost-benefit analysis, present worth or annual costs) performed by the Company showing that [the conversion] was more cost-effective than using the existing manual-read meters or other alternatives the Company may have considered." The Company's response, however, did not provide any economic or financial analysis documenting operational cost savings that would justify converting to an AMR system. *See Company's Response to Staff Production Request No. 3.* In response to follow-up Staff Production Request No. 71, the Company provided potential monthly labor and vehicle cost savings that the Company believes would result from converting

to an AMR system. Staff reviewed the Company's analysis and believes the Company's annual cost-savings estimate is generally reasonable. Staff did, however, make a minor adjustment to the Company's assumed gas price per gallon based on price surveys Staff conducted while preparing these Comments. Staff believes that the gas cost should be \$3.75 per gallon rather than \$3.50 as used by the Company. Using a price of \$3.75 per gallon for regular unleaded gas, the recalculated net operational cost savings is about \$8,315 as shown below:

Cost Items	Current Cost Touch-Read	Proposed Cost Radio-Read System	Cost Savings
Meter Reading Labor	\$ 12,072.13	\$ 4,687.97	\$ 7,384.16
Vehicle Fuel Cost	\$ 1,573.75	\$ 840.00	\$ 733.75
Office Wages	\$ 2,127.06	\$ 1,930.11	\$ 196.95
Total	\$ 15,772.94	\$ 7,458.08	\$ 8,314.86

Applying a simple payback test to recover the additional \$713,542 investment using the Staff's projected \$8,315 annual cost savings, the Company would need almost 86 years to recover its investment. This strongly suggests that the Company's investment was not economically beneficial or prudent.

The Company also claims that additional financial benefits could be derived from power cost savings for pumping and chlorine cost due to possible volume reduction of water pumped. The Company says that during the winter of November 2010 through April 2011, the Company read a sampling of 134 customers. Based on this sample, the Company calculates that the average customer used 7,000 gallons per month or 42,000 gallons during the winter season. The Company subtracted this amount from the 3-year-average winter season production of 52,467 gallons per customer, which yields 10,467 gallons per customer. The Company considers this difference to be water production in excess of expected winter usage, and it calculates extra cost savings of \$4,677 and \$220 for power and chemical cost, respectively (\$4,897 total). Staff, however, disagrees with the Company's assumption. The 10,467 gallons per customer (40,144,340 gallons for 3,835 customers) represent total loss and unaccounted water within the distribution system (excluding the leakage on the customer side of the meter) and should not be considered in estimating additional benefits for the calculation of payback for metering investment.

The Company also contends that converting to an AMR meter system will enable the Company to provide monthly readings to benefit customers who could potentially be

experiencing service line leaks during the winter. The Company cited cases in 2009, 2010, and 2011 of possible customer leaks. The Company failed, however, to document that those customers actually experienced leaks in the service lines on the customer side of the meter. In fact, when Staff asked the Company for all written records of customer complaints about winter billings related to leaks within the customers' service lines in 2009, 2010, and 2011, the Company said it did not receive any written complaints about winter billing leaks. Even if all of the customers cited by the Company actually experienced water losses due to leakage in their service lines, Staff does not believe the average cost per customer due to leakage would be as high as the Company represents. As shown in the table below, Staff calculates the cost of potential winter leaks per customer in 2010 and 2011 to be \$62 and \$53, respectively:

Year	Number of Customers	Total Excess Usage-gals	Total Cost of Leaks¹	Cost of Leaks per Customer
April 2010	118	11,899,000	\$7,270	\$62
April 2011	104	9,091,000	\$5,554	\$53
April 2008	1	2,128,000	\$1,300	\$1,300
Prior Years	1	1,128,000	\$689	\$689

In Staff's opinion, these relatively low leakage costs do not justify the Company's decision to make a \$713,542 capital investment to convert to an AMR system. The benefits of the AMR system are enjoyed by slightly more than 100 customers who may experience leaks, while the costs are borne by all customers. This disproportionate arrangement violates the principle that cost causers pay the costs.²

While an engineering study completed in 2006³ (copy provided by the Company in response to Staff Production Request No. 1) identified water meters as one of the major improvements to be made in the system, it did not recommend upgrading to AMR meters. Instead, it emphasized that the goal was to ensure that 100% of the customers are metered. The study further acknowledged that upgrading old meters to touch-read makes good sense and that no meter should remain that is not touch-read. The study specifically recommended installing

¹ Based of current commodity rate of \$0.611 per 1,000 gallons.

² Staff notes that the estimated cost incurred by one customer in 2008 amounted to \$1,300, and that another customer possibly incurred \$689 in prior years due to winter leakage. In Staff's opinion, these isolated cases should not have triggered a decision to make a significant investment to benefit only few customers at the expense of more than 3,000 customers.

³ Falls Water/Ammon/Ucon/Bonneville County Regional Planning Study, Executive Summary, Chapters 5-8, Schiess & Associates Consulting Engineers, October 2006.

125 touch-read meters on unmetered services, and installing or upgrading 1,261 manual-read meters to touch-read meters.

Moreover, the Idaho Department of Environmental Quality's ("IDEQ") Rules for Public Drinking Water Systems (IDAPA 58.01.08) do not require the Company to install AMR meters in the Company's water system. In response to Staff Production Request No. 36, the Company indicated that IDEQ has not notified the Company of any water quality or system issues since the last general rate case. In addition, Staff obtained a copy of the approved State Revolving Loan document signed by IDEQ and the Company in December 2006. This loan document does not indicate that the State would fund an AMR system conversion.

The Company did not seek initial authorization from the Commission to convert to an AMR system, and the Commission did not order the Company to convert all of its customer meters to an AMR system. As mentioned earlier, during the Company's rate case in 2005 (FLS-W-05-01), the Commission directed the Company to convert its 585 remaining unmetered residential customers at that time to meters over a 6-year period if not sooner. The Commission did not, however, direct the Company to convert all of its metered and unmetered customers to an AMR system. Staff notes that utilities commonly ask the Commission for authorization or a Certificate of Public Convenience and Necessity (CPCN) before embarking on a capital investment of this size. *See Idaho Code 61-526.* The Company's capital investment on radio transmitters (\$713,542) in this case is extremely large compared to its Commission-approved rate base of \$1,450,625,⁴ which was established during the Company's latest general rate case. Because of the size of the investment, Staff believes the Company should have sought Commission approval for the investment before launching the project. Having failed to do so, the Company proceeded at its own peril.

Staff recognizes that during the Company's prior general rate case in 2009 (FLS-W-09-1), the Commission allowed *minor* capital investments made by the Company in acquiring MXU's and converting to an AMR system for multi-family, commercial and several residential accounts. However, Staff does not believe the Commission's approval of these minor investments implied that it would be prudent or appropriate for the Company to convert all its meters to an AMR system by purchasing and installing 3,300 additional MXU units in May

⁴ Commission Order No. 31022, Case No. FLS-W-09-01.

2011. The current poor economic conditions in Idaho in general and eastern Idaho in particular make wide spread investment of AMR particularly questionable at this time.

Staff believes that converting a relatively small number of customers to AMR meters – 295 compared to a total of 3950 meters in the system – would have been reasonable and would not place a great financial burden on the customers compared to the customer burden arising from the Company's rapid, mass conversion of the remaining 3,300 touch-read meters.

Finally, the Company's radio-read, drive-by monthly AMR system is well beyond the normal practice employed by Idaho public water systems.⁵ Of the 30 privately operated water utility companies regulated by the Commission, none has installed an AMR metering system to date including the largest, United Water Idaho. Staff recognizes that some cities use a form of AMR system, including the cities of Ammon, Blackfoot, Pocatello and Driggs. *See* Company's Response to Staff Production Request No. 71. For example, the City of Blackfoot has approximately 4,800 customers. However, only 10% of the customers have AMR meters while 90% have touch-read meters. Only the high volume-use customers are read monthly throughout the year. Similarly, of the City of Pocatello's approximately 17,000 customers, two thirds have manual-read meters and one third have on AMR meters. The City of Ammon, with 3,600 customers, recently converted all 103 of its commercial customers from manual to AMR meters and is now converting 432 of its residential customers from an unmetered system to an AMR system. City water department personnel explained to Staff during the brief phone survey that the main reasons for converting to an AMR system were to conserve water, reduce peak demand, and reduce pumping and labor costs. However, Staff was not able to obtain any documentation showing these cities' conversions to AMR systems resulted in significant cost savings.

Meter Investment

Falls Water reports \$839,878 in additions to Account No. 334-Meters for the 2012 Meter Project, Exhibit 1. These expenditures are discussed in three general categories as shown on Attachment C, Columns E-G. Column E, totaling \$126,336, includes the cost of meters and installation-related expenditures. Column F, totaling \$674,024, includes the purchase of MXUs with leak detection and radio-read features, plus related expenditures. And Column G, totaling

⁵ There are approximately 2,100 public water systems operating in Idaho. 2011 Annual Report. Idaho Public Utilities Commission.

\$39,518, includes \$12,852 for extra office labor to handle additional paper work, plus financing costs of \$26,666. The Company has not demonstrated the \$12,852 for extra office labor is a necessary cost of the base meter installation. The financing charges of \$26,666 are removed from meters because financing costs are reflected in the authorized overall rate of return. Staff's recommended adjustment of \$713,542 removes the additions except for base meters. The detailed Staff adjustment to Account No. 334-Meters of \$713,542 (\$674,024 + \$39,518) is shown on Attachment C.

Service Meter Depreciation Expense

Falls Water reports total depreciation expense of \$84,210 for the 2012 meter project. Historically, the Company used a ten-year depreciable life and no salvage value for all entries in Account No. 334-Meters. The Company also used the ten-year life for the 2012 meter project. The National Association of Regulatory Utility Commissioners' (NARUC) guidelines suggest a 10% salvage value and a depreciable life of 35 to 45 years. Falls Water uses depreciable lives which are often shorter than the NARUC guidelines. This leads to higher annual depreciation expenses and may lead to more rapid replacement of equipment. Company representatives said the Company has experienced shorter useful lives and has adopted depreciable lives reflecting this reality. However, the Company has not demonstrated that a shorter useful life is reasonable. Absent such evidence, Staff believes the NARUC standards should be used. Staff notes, for example, that United Water of Idaho uses mid-range, 40 year depreciable life for their service meters. Staff is willing to consider reasonable, auditable, evidence demonstrating a basis for the Company's departure from NARUC useful life standards. Until then, Staff believes NARUC standards should continue to be used.

Using Falls Water's proposed method, annual depreciation expense for the 2012 meter project would be \$83,988. The Company says it experiences shorter actual life spans than the NARUC method uses. Recognizing this concern, Staff used the low end of the recommended NARUC range, a depreciable life of 35 years, to calculate depreciation expense of \$3,249 for the \$126,336 of meter investment recommended by Staff. A comparison of the two depreciation calculations is shown on Attachment E.

In the future, Staff will use the NARUC standard for all PIS accounts and consider other depreciable life spans only if the Company provides auditable data supporting any variation.

Electric Power Costs

Staff reviewed the electric power cost adjustment made by the Company to recognize increases in electric power costs. The Company's power cost model initially calculates the annual power costs by using the actual kWh usage for 12 years (2000-2011) and applying the current electric power rates for each year. The model then computes the normalized annual power cost by multiplying the 12-year average yearly demand and energy charges per customer by the total number of customers during the end of the test year (3,831). The result is a normalized annual power cost of \$150,407.

Staff believes the Company's methodology is appropriate. However, Staff does not agree with the Company's use of 12 years of water production data because that data does not account for the declining water use per customer, especially during the last several years as shown in Attachment F. Using 12 years of annual production volumes (2000-2011), the calculated average annual volume is 338,496 gallons per customer. In contrast, the average water production using a 6-year average (2006-2011) is 304,296 gallons per customer. Staff believes that the 6-year annual average more accurately approximates current water production volume with the corresponding kWh usage. Using the 6-year annual average, Staff calculated a yearly demand of \$15.30 per customer and energy charges of \$19.12 per customer. Multiplying these charges by the total number of year-end customers during the test year (3,832)⁶ yields a normalized annual power cost of \$131,909. Therefore, Staff recommends reducing the Company's proforma electric power cost by \$18,535 (i.e., \$150,444⁷-\$131,909).

Water Testing Cost

The Company claims that water testing during the test year costs \$3,428. The Company proposes a \$2,725 additional adjustment, making the proforma cost of water testing \$6,153. Because different testing cycles are required for various regulated water contaminants, Staff believes it is necessary to make appropriate adjustments to calculate a normalized water testing cost. The Company provided Staff an annualized cost for a nine-year cycle for water testing in all Company wells. The water testing costs also include the IDEQ-required water sample analysis at various sampling points of the distribution system. Staff reviewed the Company's

⁶ The Company later corrected the number of customers during the end of 2011 test year from 3,831 to 3,832.

⁷ Recalculated 12-year normalized power costs using 3,832 year-end customers in 2011.

proposed costs and adjustments, agrees that the total annualized testing costs are appropriate and reasonable, and accepts the Company's \$2,725 adjustment to test year water testing cost.

Water Treatment Cost (Chemicals)

The Company claims it purchased \$4,548 worth of chlorine for water treatment during the test year, and it proposes a \$2,504 adjustment with a total proforma chemical cost of \$7,052. Staff reviewed the Company's method of calculating the pounds of chlorine needed for each year and normalized such usage. Staff generally agrees with the Company's method of calculating the chlorine usage per year. However, Staff disagrees with the Company's use of 10 years of well production data (2002-2011) to normalize the chlorine usage. Using the same rationale as used in the electric power costs adjustment, Staff believes that it is appropriate to use the more recent well production data (6-year average from 2006-2011) to normalize the chlorine usage. This reduces the normalized usage from 66 pails of chlorine per year to 62 pails per year. At the cost of \$2,564 per pallet (24 pails per pallet), this reduces the chlorine costs from \$7,052 to \$6,625. Therefore, Staff recommends that the Commission remove \$427 of the chemical (chlorine) costs.

Building Lease

In a previous case, FLS-W-09-01, the Commission discussed a building lease between Falls Water and a related party. In that case, Falls Water leased a total of 4000 square feet of combined office and shop space. In Order No. 31022, the Commission expressed concern about the Company's number of affiliate transactions. The Commission also maintained that the Company must demonstrate evidence of arms length bargaining between the Company and the related party as the foundation of reported expenses. The same lease plus a new lease with a related party are part of the current case, FLS-W-12-01.

In the previous lease, the Company's owner, Mr. Johnson, leased 4000 square feet of space to the Company. This consisted of 1600 square feet of office space and 2400 square feet of shop. Another 5000 square feet was leased to Rockwell Homes.

According to Falls Water, the lease with Rockwell Homes was not complete, and Mr. Johnson asked Rockwell to vacate the 5000 square feet of the building because Falls Water needed the additional space. The new lease includes the original 4000 square feet plus the

additional 5000 square feet for a total of 9000 square feet. In this rate case, the reported expenses combine payments for both leases.

Staff calculated the following rates. The original lease of office and shop, a total of 4000 square feet, was approved in the previous rate case, FLS-W-09-01, at an annual cost of \$39,720. This is an average annual cost of \$9.93 per square foot. Under the most recent lease, of 9000 square feet, the annual rent for the first year is \$53,952, or an average annual cost of \$5.99 per square foot.

Staff asked the Company to provide an economic analysis demonstrating savings or other economic benefits from the latest lease. No analysis was provided. However, the Company said it needs the additional 5000 square feet of shop space for several reasons:

First, the Company explained that it needs the additional space to store inventory, like pipes and fittings that the Company keeps for emergency repairs, along with other materials the Company needs for daily operations. Staff finds this justification unsupported. Staff examined the Balance Sheet in the Company's Annual Reports for the last five years, 2007 through 2011 and found no values listed in any of those years for Account No. 151 - Materials and Supplies Inventory.

Second, the Company said it needs the additional heated space to store a rented backhoe and dump truck during the winter so they will start easily. Staff notes the Company rents this equipment from the Company's owner, Mr. Johnson. In Staff's view, rental of this equipment makes storage the responsibility of the owner, not Falls Water Company. The Company has provided no evidence suggesting that it is obligated to store the rental equipment.

Third, the Company explained that the additional shop space provides an area for routine maintenance of the Company's vehicle fleet. The Company lists 11 items in Account No. 341 - Transportation Equipment including a snow plow blade and a Ford F-350 that was retired in 2011.

Fourth, Falls Water said it benefits from having all its sites together. However, the Company did not quantify the costs and benefits. While Staff admits quantification may be difficult, the Company has not demonstrated any economic justification for tripling shop facilities space from 2400 square feet to 7400 square feet.

Using the original lease without contract escalators of \$36,000 as a starting point, Staff recommends that one-fifth of the additional 5000 square feet be allowed for a total lease cost of

\$41,995 annually. Therefore, Staff recommends that the annual rent be adjusted by \$11,957, as shown on Attachment G.

Equipment Rental

Falls Water Company rents a backhoe and a 12-yard dump truck from the Company's owner, Mr. Johnson. Staff asked the Company to demonstrate its need for this equipment with job schedules, equipment needs, etc. The Company claims it has an ongoing need for a backhoe and dump truck, but it provided little evidence to support this claim. Staff acknowledges there may be an occasional need for such equipment. Purchasing equipment would be more consistent with an ongoing need and reduce the annual cost.

While the Company has chosen to rent equipment and has reported a total of \$31,474, as the annual expense, it has only *documented* \$20,000 of the reported amount. Accordingly, Staff recommends that the Commission allow an annual amount of \$20,000 in this case, the same amount allowed in the 2009 rate case. This will result in adjusting the Company's reported annual expenses downward by \$11,474, as shown in Attachment H.

Revenue Requirement

Staff's rate base adjustments include the recommendations for PIS and associated depreciation as shown on Attachment I. Working capital is calculated as 1/8 of operating expense and added to rate base. The Staff's recommended rate base is \$1,821,144, as shown on line 6 of Attachment I.

The proforma results of operation are shown on Attachment J. Column C shows Falls Water's numbers for each account. Staff's adjustments are shown in Columns D and E, with the Staff's recommended totals in Column F. The Staff's recommended total expenses are \$1,025,414 as shown on Attachment J, page 2, Column F, line 53.

Staff's recommended revenue requirement for Falls Water is shown on Attachment K. The last column shows return on rate base (ln 3), additional taxes (ln 11) plus operating expenses (ln 13) results in a total revenue requirement of \$1,169,054 as shown on line 14 of Attachment K. The gross-up calculations for additional taxes are split in two components to reflect the taxable nature of the equity portion and the tax deductible nature of the debt portion.

Falls Water utilized a 12% ROE when calculating its revenue requirement. Although the Commission authorized a 12% ROE in the last rate case, market achieved and allowable returns

are now lower. Falls Water has an equity ratio greater than 50% equity and does not have a significant required capital budget in the near future. This suggests a 10% ROE would be appropriate. However, Staff proposes a large adjustment to meters in this case, which creates regulatory risk. The higher regulatory risk makes an 11% ROE more appropriate. The overall rate of return recommended by Staff is 7.23% when the Company's capital structure and cost of debt is accepted.

The Company booked \$1,112,611 in 2011. The proforma revenues at existing rates for 3840 customers are \$1,153,222 for a difference of \$40,611. *See Attachment L.* When the generated revenue at existing rates of \$1,153,222 is compared to Staff's the total recommended revenue requirement of \$1,169,054, additional revenue of \$15,832 needs to be generated from rates going forward.

RATE DESIGN

The Company proposes the following rate design to produce its requested revenue requirement: a) maintain the current, single-block commodity rate design based on meter size for all customers, with volume allowance for the base (fixed or customer) charge; b) reduce the present volume allowance for the base charge for each meter size; c) increase both the basic customer charge and the commodity charge for each meter size with a greater percent increase allocated to the customer charge; d) use the 2011 excess water usage data for various classes of customers; and e) use 3,840 total number of customers in estimating expected revenues using the Company's proposed rates.

The Company proposes the following rates to collect its requested annual revenue requirement of \$1,407,671:

Customer Monthly Charges (Base Rate Charges)

Meter Size (inches)	Present Rate (\$/month)	Present Volume Allowance (gallons)	Proposed Rate (\$/month)	Proposed Volume Allowance (gallons)	Percent Increase (%)
¾ - inch or smaller	\$16.10	12,000	\$19.18	5,000	19.1%
1-inch	\$22.54	17,000	\$26.85	7,000	19.1%
1 ½ - inches	\$28.98	22,000	\$34.52	9,000	19.1%
2 – inches	\$37.03	28,000	\$44.11	12,000	19.1%
4 - inches	\$66.01	49,000	\$78.64	20,000	19.1%

Commodity Charges

Customer Class	Current Rate (\$/1,000 gallons)	Proposed Rate (\$/1,000 gallons)	Percent Increase (%)
All Customer Classes	\$0.611	\$0.670	9.7 %

Given the limited Staff-proposed revenue requirement increase, Staff recommends that the customer allowance and commodity charge remain unchanged and the increase be spread uniformly on the customer charge.

Volume Allowance for Base Charge

As mentioned previously, the Company proposes to reduce the monthly volume allowance for the base rate (minimum customer charge) from the current volume usage of 12,000 gallons to 5,000 gallons for a representative customer meter size of ¾-inch or smaller. The minimum charge volume allowance for other sizes is correspondingly reduced. The Company says it proposes to set the volume allowance at 5,000 gallons per month primarily to reduce the subsidy that low usage customers pay to high usage customers. The Company also claims that lower volume allowances would make the rate fairer because customers will pay for more of the water they actually use. In addition, the Company states that in order to encourage conservation of water, it is prudent to create a rate that puts the cost burden of a customer's water use squarely on the customer. The Company also said that the surrounding communities of Rexburg and Ucon, respectively, have volume allowances of 6,000 gallons and 5,000 gallons per month.

The Commission has no written policy on setting the minimum customer charge volume allowance in rate design for small water companies. Rather, it deals with this issue on a case-by-case basis. For example, in Case No. DIA-W-07-01 the Commission addressed the monthly volume allowance issue and stated:

...Some customers recommended increasing the monthly allowance of water to as much as 10,000 gallons per month, others recommended reducing it to as little as 0. Staff reasoning in lowering the base monthly amount of water allowance is appealing; however, we believe the reduction from 7,500 to 4,000 per month goes too far. Instead, we find that the monthly allowance should be 5,500 gallons **which coincides with the average winter usage which can be considered "minimum."** (Emphasis added.)

Commission Order No. 30455.

Several Falls Water customers commented that the Commission should not cut the volume allowance to 5,000 gallons because such a volume cut is extreme and would also be more expensive for customers.

Staff generally supports reducing the volume allowance to a level that approaches the average customer's monthly winter usage. However, in this particular case, Staff does not support changing the volume allowance included with the customer charge for several reasons. First, the Staff-recommended revenue increase of \$15,832 or 1.4% is relatively small compared to allowance reduction. Reducing the allowance as suggested by the Company, without reducing the customer charge, causes billing increases for many customers that are well beyond the overall revenue requirement percentage increase proposed by Staff. Second, the lack of water consumption data including a bill frequency analysis in a usable executable format (i.e., Excel file), makes it impossible for Staff to analyze the actual revenue impact of such a significant change in volume allowances. Staff, therefore, recommends that the current volume allowance for various meter sizes be maintained in this case.

Number of Active Customers

The Company presents the following figures related to the total number of customers: a) 3,900 (Application at 2); b) 3,835 – total number of customers at the end of December 2011 (Response to Staff Production Request No. 25) but later corrected by the Company to 3,832 on April 10, 2011; and c) 3,840 – total number of customers on January 24, 2012 (page 2, Exhibit 5 of the Application). The Company proposes to use 3,840 customers in its rate design with the following distribution by meter class:

Meter Class	No. of Customers	% Distribution
5/8 and 3/4-inch	3,679	95.8%
1-inch	109	2.8%
1 1/2-inch	17	0.4%
2-inch	33	0.9%
4-inch	2	0.1%
Total	3,840	100.0%

Staff concurs with the Company using 3,840 customers with the distribution as presented above. In Staff's opinion, the total number of customers as of January 24, 2012 is an appropriate number of customers to use in the rate design and in calculating the Company's fixed revenues. This total number of customers represents a more recent count of active customers of Falls Water and is a known and measurable change compared to the end of the test year 2011 data.

Commodity Charge

The Company proposes using the 2011 monthly excess data to estimate the variable (commodity) revenue collected by the Company, and applying the proposed commodity rate of \$0.67 per 1,000 gallons to the monthly excess water usage for various customer classes. The total excess usage for all customer classes in 2011 is 734,085,000 gallons. The volume allowance for each customer class (i.e., 5,000 gallons for 3/4-inch meters and smaller, 7,000 gallons for 1-inch meters, etc.) was already subtracted from this total.

As discussed previously, Staff recommends maintaining the current volume allowance for various meter sizes. Hence, the Company's estimated annual excess volume (734,085,000 gallons), taking into account the proposed volume allowance for various meter sizes in 2011, no longer applies. In order to calculate the Company's variable (commodity) revenue, the total annual excess volume needs to be estimated using the current volume allowance for various meters. This data is not readily available from the Company. However, during the Company's last rate case in 2009 (FLS-W-09-1), the Commission established the total annual excess volume of 605,955,000 gallons for 3,638 customers. *See* Order No. 31022. By simply multiplying the annual excess usage rate per customer established in Order No. 31022 of 166,563 gallons by the total number of customers in 2012 (3,840), the calculated total annual excess usage is 639,602,000 gallons. Staff recommends that this total excess usage be used in calculating the Company's commodity revenue.

Other Rate Design Issues

The Company proposes to increase the customers' fixed charge by about 19.1% for all meter sizes while increasing the commodity rates by 9.7%, from \$0.611 per 1,000 gallons over the minimum charge volume allowance to \$0.67 per 1,000 gallons. *See Application at 1.* The Company believes its proposal helps remedy winter cash flow problems. The Company also points out that the ratio of fixed cost to commodity charge was altered in the Company's last rate case to help the Company meet its cash flow needs. *See Case No. FLS-W-09-01, Order No. 31022.* Although the percent increase in the fixed charge is greater than the percent increase in the commodity charge, the proposed reduction in volume allowances causes the overall result of the proposed rate design to nearly maintain the current proportion of revenue derived from fixed charges and commodity charges.

The Company's proposal to put more emphasis on the basic customer charge is generally contrary the principle of promoting conservation; in short, there is less opportunity and incentives for customers to be more efficient if most of the total water charges are allocated to fixed costs. 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%. *See Order No. 30027, Case No. FLS-W-05-01.* Staff sees no significant difference between the previous rate case and this one with regard to revenue contribution ratio. Staff also recognizes the inherent cash flow problems that small water utilities experience during the period of low water-customer usage. Consequently, Staff does not oppose placing more emphasis on the basic customer charge.

Staff Rate Design Proposal

As noted earlier, Staff recommends a revenue requirement of \$1,169,054. Staff also notes that the number of customers increased from 3,638 during the last rate case in 2009 to 3,840 in 2012, a 5.6% increase of 202 customers. These new customers now contribute to the Company's current revenue. Before exploring various rate design options to meet the Staff-recommended revenue requirement, the projected Company revenue was calculated using the 3,840 customers from 2012, an adjusted annual excess volume and current rates. The total adjusted annual excess volume using the current volume allowances for various meter sizes for all customers was estimated to be 639,602,000 gallons (605,955,000 gallons from Order No.

31022/3,638 customers in 2009 x 3,840 customers in 2012). Based on these estimates, the projected revenue is \$1,153,222, which is insufficient to cover the Staff's recommended revenue requirement of \$1,169,054, a difference of \$15,832. See Attachment L.

Subsequently, Staff investigated other design options to meet the Staff-recommended revenue requirement. There are many combinations using the basic rate structure to satisfy the revenue requirement. To maintain revenue stability for the Company, Staff recommends increasing the customer charge and leaving the commodity rate at its current level. Using the net adjusted annual excess water usage (639,602,000 gallons) discussed previously with 3,840 total customers, Staff proposes the following rate design:

BASIC CUSTOMER CHARGES

Service Meter Size	Vol. Allowance in Gallons	Minimum Charge
5/8 and 3/4- inch	12,000	\$16.44
1-inch	17,000	\$23.02
1 1/2 inch	22,000	\$29.59
2 inch	28,000	\$37.81
4-inch	49,000	\$67.40

COMMODITY CHARGES

Commodity Charges for all Meter Sizes (\$/1,000 gallons)	\$0.611
--	---------

With the Staff-recommended rate design shown above, there is no increase in the commodity charge but there is an increase in the customer charge from the current rate of \$16.10 to \$16.44 per month, an increase of 2.1% for a typical customer with 3/4-inch meter size. The total revenue generated from rates is \$1,169,323 (\$778,526 from base + \$390,797 from commodity). There is still an emphasis on the basic customer charge which is about 67% of the total gross revenue compared to 65% under the Company's proposal. The rate proof for the Staff-proposed rate design by meter size is presented in Attachment M.

With the Staff's proposed rate structure, the average monthly bill for residential customers with Company standard meter size of 3/4-inch or smaller using an average monthly volume of 19,624 gallons (per Attachment N) is about \$21.10 per month, an increase of \$0.34 or 1.6% from current rates. The rate impacts for residential customers with 3/4-inch meter size or smaller using various monthly water volumes are presented in Attachment O.

Private Fire and Sprinkler Service

The Company initially proposed including a new Schedule No. 3 for Private Fire Sprinkler and Service. Application, page 6. However, the Company did not provide a copy of proposed Schedule 3 as an exhibit in its Application. In response to Staff Request No. 34, the Company withdrew its proposal to create a new schedule for Private Fire Sprinkler and Service and explained that the proof of revenue calculation in its proposal did not include any revenues for the withdrawn proposed Schedule No. 3.

The Company indicated that there are approximately 20 private fire sprinkler systems in the Company's service area. The exact count is not known because all the private fire sprinkler systems were installed without the Company's knowledge and the Company only recently learned of them. The Company believes there are only a few fire sprinkler systems and that they have, to date, not adversely impacted service to other customers or financially burdened the Company.

Staff does not oppose the Company's decision not to create a new schedule for Private Fire Sprinkler and Service at this time. However, Staff recommends that the Company further investigate how many customers have private fire sprinklers or separate lines for fire fighting purposes connected to the Company's distribution system. The Company should then submit a proposal to the Commission for charging these customers under a separate schedule during its next rate case. Staff believes the Company provides water service to these customers in case there is a fire on their properties, and that they should pay for that service.

OTHER WATER SYSTEM OPERATIONAL ISSUES

Amending the Company's CPCN

Staff notes that the Company's CPCN No. 236 was last amended in Case No. FLS-W-02-01. Based on Staff's review of the Company's Annual Reports from 2002 to 2010, it appears that the Company has been servicing new subdivisions outside its certificated area. In response to Staff Production Request No. 38, the Company conceded that not amending the CPCN was an oversight on the Company's part. The Company said it would file an application to amend its CPCN after this rate case is completed. Staff supports the Company's plan to amend its CPCN after this case concludes.

Year-Round Meter Reading

Now that the Company has finished installing the additional 604 meters and 3,300 MXU's, the Company is fully converted to an AMR system. As discussed previously, Staff recommends that the cost for installing the 3,300 MXU units and related reading devices be disallowed.

Nonetheless, regardless of how the Commission rules on the recovery of such investments, the Company is now ready and equipped to read all its meters monthly throughout the year. The Company proposes to read meters year-round. The Company claims that the ability to read meters in the winter benefits customers because: 1) customers will be made aware of winter leaks sooner; 2) catching leaks early will conserve water; and 3) with the reduction of water allowed in the minimum rate, generating excess usage is a real possibility and the customer would be more financially capable of paying for the overages as they are incurred rather than being billed in April for all water excess usages that have accrued since the prior October reading. As noted earlier, the Company provided a detailed analysis of potential monthly labor and vehicle fuel cost-savings as a result of monthly readings of all AMR meters installed in the system. While Staff does not believe the analysis justifies the AMR investment, Staff does not oppose the Company's plan to perform monthly readings throughout the year.

CUSTOMER RELATIONS

Unauthorized Charges

Falls Water has quoted or assessed several charges related to construction of facilities to serve new customers. These charges have not been approved by the Commission, but the Company has indicated that it has been charging these fees for several years.

These unauthorized charges include: 1) a charge for improvement to physical plant which varies depending upon whether the water provided will be used for irrigation; 2) two different charges for the cost of water rights depending upon whether the water provided will be for in-house use and/or irrigation; 3) a miscellaneous development fee to cover engineering costs, and 4) a charge to install a service line underneath a street to the customer's property. These unauthorized charges are further discussed below.

The Company's charges for plant improvements, the purchase of water rights, and engineering costs are not appropriate for a customer requesting a single connection, and are not consistent with the Uniform Main Extension Rule incorporated within the Company's approved

tariff. *See* Order No. 31022 (FLS-W-09-01). The impact of a single connection to the system is not significant enough in most cases to require further system improvements. Currently, customers pay a hook-up fee ranging from \$500 to \$1,205, depending on meter size. Although there may be circumstances where these charges are appropriate, such as when a large customer or developer requests service requiring system improvements, the Commission has not previously approved such charges for Falls Water, or for any other small water company.

Finally, the Commission has previously allowed other companies to charge to install a service line under the roadway from the main line to the customers lot on the other side of the street. However, Falls Water's tariff does not include such a charge, and the Company has not previously requested such a charge.

Based on previous Commission orders concerning other small water utility companies, Staff recommends that the Commission authorize the Company to modify its tariff to allow charging customers when the Company must install a service line under a roadway to provide a customer connection. *See* Order Nos. 30455 (Case No. DIA-W-07-01), 31002 (Case No. BCS-W-09-02) and most recently 32105, (Case No. MUR-W-10-01). The cost to install a line under a roadway will vary depending upon the complexity of the situation. Staff therefore recommends that the charge to the customer be based on time and material costs and that the customer be given an option to hire an independent contractor. Staff also recommends that the tariff contain the following Commission approved language:

When the installation of a new service line requires the Company to bore a line under a road, all additional costs will be charged to the customer on a time and materials basis. The new customer may, at their option, hire a Falls Water Company approved independent contractor to perform the road bore and connection. The Company will require such contractor to show proof of bonding, licensing and insurance and have at least five (5) years of experience at hot tapping water lines. Falls Water Company will inspect and approve all the work being performed to insure compliance with the Company's installation requirements.

The Company has not previously requested any of the charges discussed above, either as part of a general rate case or through a tariff advice. The Company has collected unapproved charges from at least one customer. Therefore, Staff recommends that any unauthorized charges collected from customers over the past three years be refunded to the affected customers. *See* Rule 203 of the Utility Customer Relations Rules.

Customer Notification and Press Releases

The Company's Application included a copy of the notice that was mailed to the customers and a copy of the press release that was sent to the Post-Register in Idaho Falls on January 31, 2012. The customer notice and press release detailed the percentage increase for various sizes of connection, which the Company calculated using customers' actual usage and a software program that allowed the Company to enter proposed increases and determine the percentage increase. Staff has been unable to verify the accuracy of the Company's calculations.

According to Staff's calculations, the average Falls Water customer uses 20,000 gallons per month and more than 90% of customers are on a 3/4-inch meter. The average monthly bill of a customer is now \$20.98 per month and would increase by about 39.3% to \$29.23 if the Company's request is granted in full.

Questions from customers raised during the customer workshop prompted the Company to explain its process in determining the percentage increase for the different customer classes. Staff recognizes the Company efforts in calculating the effect of the proposed rate increase on customers, but recommends that in the future, the Company comply with the IPUC Rules of Procedure, (IDAPA 31.01.01). Rule 125 states that the notice shall give the proposed overall percentage change from current rates as well as the proposed percentage increase in revenue for each major customer class.

The Commission provided public notification for a customer workshop through a April 3, 2012 press release. The workshop was held on April 10, 2012 in the city of Ammon, and there were eight attendees.

Customer Relations

As of May 19, 2012, the Commission has received approximately thirty-eight (38) written comments from thirty-two (32) customers regarding this case. Most comments reflect concern about how the increase will impact customers in the current economy and the negative effect that the proposed change in rate design will have on customers who use water for outside irrigation.

Since the previous rate case closed on March 10, 2010, the Commission has received fourteen complaints and inquiries about the Company. Almost half of those complaints and inquiries relate to the current rate case.

Complaint Records

In response to production requests, the Company stated that it has received no complaints or requests for a conference from customers.

Xpress Bill Pay

In response to customer's requests, the Company has entered an agreement with Xpress Bill Pay that allows customers to pay their monthly bills by debit card, credit card, or electronic funds transfer. Xpress Bill Pay deposits the monies in the Company's account and issues a daily report for the Company to download into its accounting system. Similar services are provided by other utilities whose vendors typically charge the customer a convenience fee to cover the cost of the process. However, Falls Water has instead chosen to pay for the cost of the program, which will work in conjunction with its new vendor for processing electronic transactions. The Company states that the combined costs are less than under the previous merchant pay system. The Company indicates that in April 2012 more than 1,400 customer payments were processed through Xpress Bill Pay. Staff believes that the volume of customer participation to date indicates the appropriateness of the program, and Staff supports the Company's decision.

STAFF RECOMMENDATIONS

Staff makes the following recommendations:

1. Staff recommends use of a 2011 test year.
2. Staff recommends an 11.00% ROE and an overall return on rate base of 7.23%.
3. Staff recommends a rate base of \$1,821,144.
4. Staff recommends a decrease in Land and Water Rights of \$92,518.
5. Staff recommends a decrease in Meters (radio transmitters, etc.) of \$713,542.
6. Staff recommends a decrease in Depreciation Expense and Accumulated Depreciation of \$80,739.
7. Staff recommends a revenue requirement of \$1,169,054. This represents additional revenue of \$15,832 or a 1.4% increase in revenues.
8. Staff recommends a decrease of Power Cost Expense by \$18,535.
9. Staff recommends a decrease in Water Treatments Costs (Chemicals) by \$427.
10. Staff recommends a decrease in Office & Warehouse Rent Expense by \$11,957.
11. Staff recommends decrease in Equipment Rental Expense of \$11,474.

12. Staff recommends an increase in Working Capital of \$1,177.
13. Staff recommends that the Commission approve the new customer charges proposed by Staff maintaining the current volume allowance for various service meter size and maintaining also the current commodity charge for all service meter sizes.
14. Staff recommends that the Company's CPCN be amended after this rate case is completed.
15. Staff recommends that Commission approve monthly reading of all customer meters throughout the year as requested by the Company.
16. The Commission approve an additional charge based on time and material expended when the installation of a new service line requires the Company to bore a line under a road.
17. The Company refund unauthorized charges collected from customers.
18. The Company comply with the requirements of the Commission's Rules of Procedure, in particular Rule 125, with respect to preparation of Customer Notices and Press Releases.

Respectfully submitted this 15th day of June 2012



Karl T. Klein
Deputy Attorney General

Technical Staff: Gerry Galinato
Chris Hecht
John Nobbs

i:umisc/comments/flsw12.1kkgginch comments

**Falls Water Company
Schedule of Plant in Service
CYE 2011**

L#	Sub#	Item	AuditBals CYE 2009	Adds 2,010	Adds 2,011	Book Retmts	New Bals CYE 2011	Meter Project	FWC Exh 1 Pg 1 of 1	Audit Adjusts	Audited Balances
1	303.0	Land & Rts	1,896,348	12,222	212,736		2,121,306		2,213,824	(92,518)	\$2,121,306
2	304.0	Str & Imp	486,931	1,850			488,781		488,781		\$488,781
3	307.0	Wells	403,241	1,500			404,741		401,931		\$401,931
4	310.0	Genrtrs	16,693	0			16,693		16,693		\$16,693
5	311.0	Pumpg	398,448	19,253	2,290		419,991		419,992		\$419,992
6	320.0	Purifi Sys	23,626	22,118			45,744		48,554		\$48,554
7	331.0	Mains	906,136	0			906,136		906,136		\$906,136
8	334.0	Meters	955,683	46,571	17,962	(36,014)	984,202	839,878	1,825,132	(713,542)	\$1,111,590
9	335.0	Hydrants	50,371	9,208			59,579		59,849		\$59,849
10	340.0	Offc Eqpt	36,260	23,623			59,883		60,519		\$60,519
11	341.0	Transport	60,607	80,296		(2,500)	138,403		138,403		\$138,403
12	343.0	Tools	24,049	2,809			26,858		26,858		\$26,858
13		Totals	\$5,258,393	\$219,450	\$232,988	(\$38,514)	\$5,672,317	\$839,878	\$6,606,672	(\$806,060)	\$5,800,612

**Falls Water Company
Analysis of Land & Land Rights
Account # 303**

L#

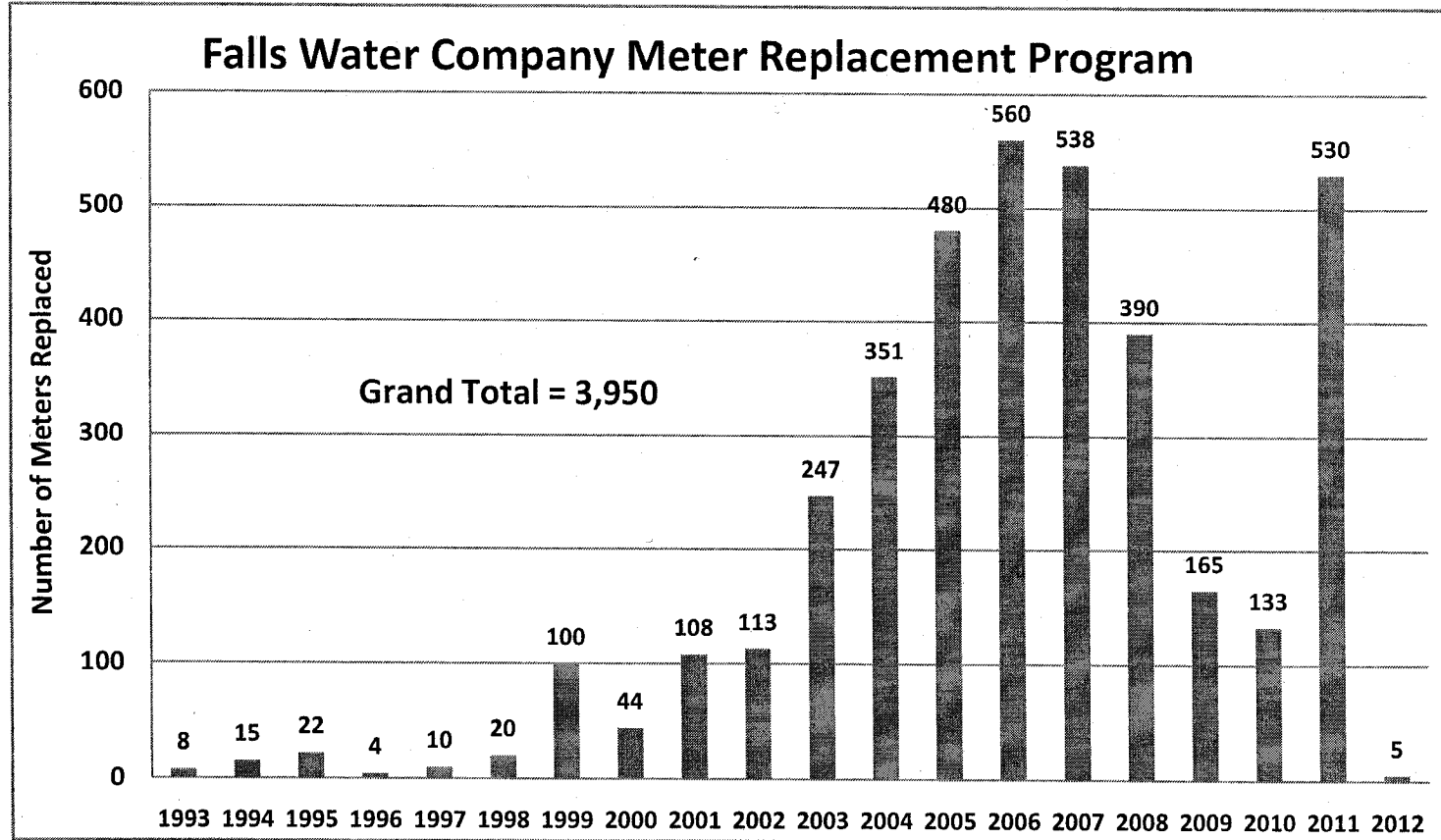
1	Bal Reported CYE 12/31/11	\$2,213,824	
2	2011 Additions from Recon of Account	212,735	
3	2010 Additions from Recon of Account	<u>12,222</u>	
4	CYE 2009 Book Balance		\$1,988,867
5	CYE 2009 Audit Balance		<u>\$1,896,348</u>
6	Difference/Adjustment		\$92,519

Falls WaterCompany
Schedule of Meter Project Cost Allocations
2012 Meter Project FLS-W-12-01
CYE 2011

L#	A	B	C	D	E	F	G	H
					Allocated to	Allocated to	Allocated to	Allocated
1	Description	Numbers	Cost each	Total Cost	Meters	MXUs	Other	Totals
2	3/4 in Iperl meters	600	\$185	\$111,000	111,000			111,000
3	1 in Iperl meters	4	\$210	\$840	840			840
4	520 MXU w/leak Detectors	3,300	\$168	\$554,400		554,400		554,400
5	Upgrade Hand helds	2	\$7,500	\$15,000		15,000		15,000
6	Program Iperls	1	\$424	\$424		424		424
7	Vehicle Gateway Base Station	1	\$42,500	\$42,500		42,500		42,500
8	Labor:			\$0				0
9	Remove Old manl reads	604	\$24	\$14,496	14,496			14,496
10	Install MXU, prog meters	3,300	\$17	\$56,100		56,100		56,100
11	Move MXU consolidate areas	175	\$32	\$5,600		5,600		5,600
12	Temp offc wkr-xtra paperwk	1	\$12,852	\$12,852			12,852	12,852
13	Financing	1	\$26,666	\$26,666			26,666	26,666
14	2012 Meter Project Totals			\$839,878	\$126,336	\$674,024	\$39,518	\$839,878

Falls Water Company Case No. FLS-W-12-01
Number of Service Meters Installed and Replaced

Year	No. of Meters Replaced
1993	8
1994	15
1995	22
1996	4
1997	10
1998	20
1999	100
2000	44
2001	108
2002	113
2003	247
2004	351
2005	480
2006	560
2007	538
2008	390
2009	165
2010	133
2011	530
2012	5
Sub-total	3843 *
No dates	107 **
Total	3950



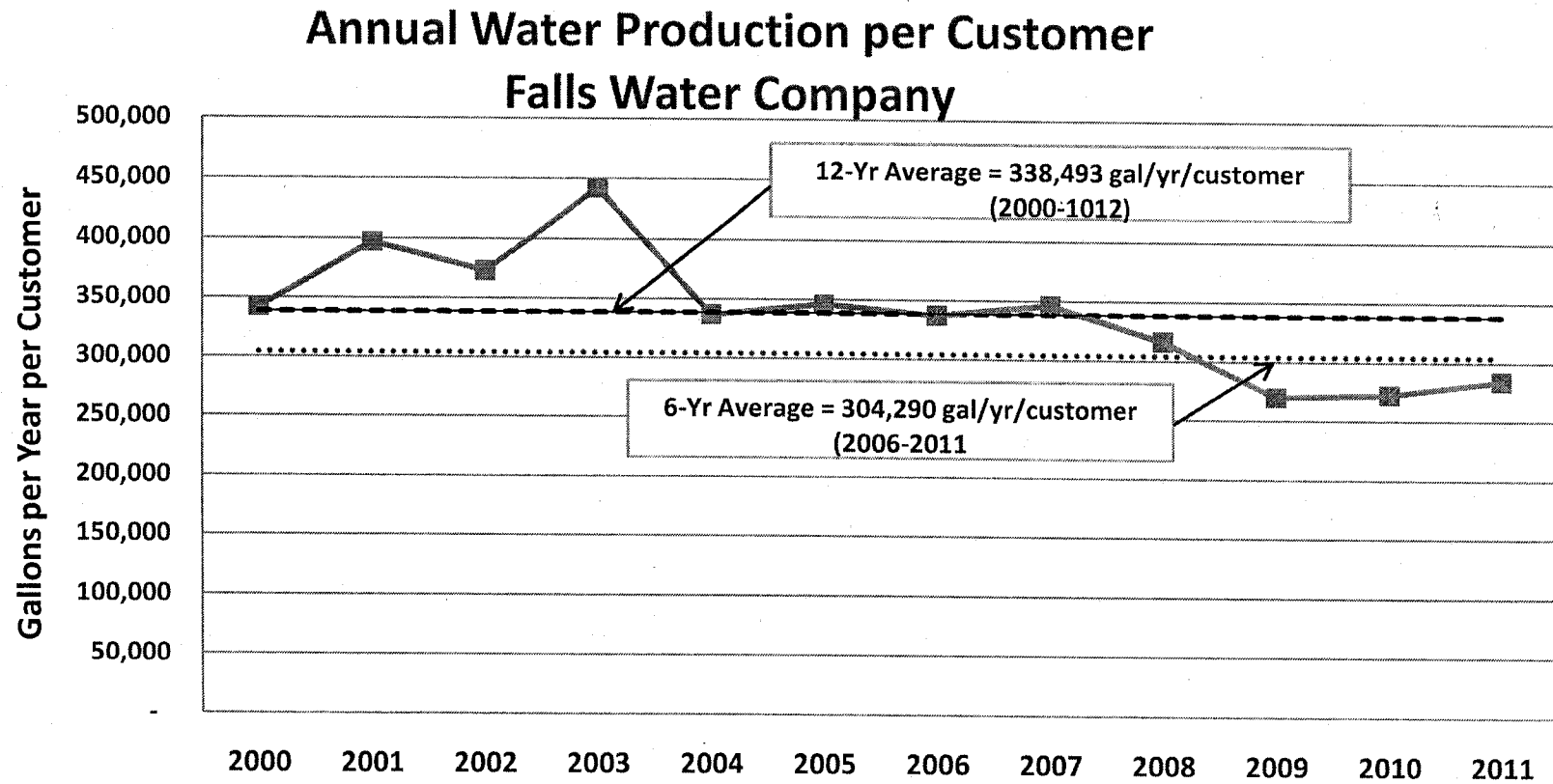
*As of January 31, 2012.

**Replacement dates for these meters are not available.

**Falls Water Company
Comparison of Depreciation Expenses
2012 Meter Project**

L#	Item	FWC	Staff	Difference
1	Cost	839,878	126,336	713,542
2	Salvage Value	0	12,634	12,634
3	Net Depreciable Amt	839,878	113,702	726,176
4	Depreciable Life	10	35	
5	Depr Expense Adjustment	83,988	3,249	80,739
6	FWC Adjustment	222		
7	As Reported Exhibit 2, Ln 52	\$84,210		
8	per Customer	\$21.93		

Falls Water Company Case No. FLS-W-12-01
Annual Water Production



Falls Water Company
Calculation of Building and Property Rent
CYE 2011

L#	Description	Cost per						Total
		Year	Monthly	SqFt	Sq Ft	Sq Ft	Months	
1	Rockwell Lease							
2	Base Rent	2011	\$3,000.00	4,000	0.750	4,000	12	36,000
3	Escalators	2011	\$811.91	4,000	0.203	0	0	0
4								
8	Triple Net Lease	2011	\$4,496.00	9,000	0.500	1,000	12	<u>5,995</u>
9	Total							41,995
10	Reported Expense							<u>53,952</u>
11	Adjustment							(11,957)

Falls Water Company
Schedule of Equipment Rental Expense
Equipment Rental - Acct # 642.0
CYE 2011

L#	Name	Related	Inv Date	Rental	Acct #	Amount
1	Brent Johnson	Owner	3/1/11	BKHoe & DumpTrk	642.0	2,000.00
2	Brent Johnson	Owner	4/1/11	BKHoe & DumpTrk	642.0	2,000.00
3	Brent Johnson	Owner	5/1/11	BKHoe & DumpTrk	642.0	2,000.00
4	Brent Johnson	Owner	6/1/11	BKHoe & DumpTrk	642.0	2,000.00
5	Brent Johnson	Owner	7/1/11	BKHoe & DumpTrk	642.0	2,000.00
6	Brent Johnson	Owner	8/1/11	BKHoe & DumpTrk	642.0	2,000.00
7	Brent Johnson	Owner	9/1/11	BKHoe & DumpTrk	642.0	2,000.00
8	Brent Johnson	Owner	10/1/11	BKHoe & DumpTrk	642.0	2,000.00
9	Brent Johnson	Owner	11/1/11	BKHoe & DumpTrk	642.0	2,000.00
10	Brent Johnson	Owner	<u>12/1/11</u>	<u>BKHoe & DumpTrk</u>	<u>642.0</u>	<u>2,000.00</u>
11	Subtotal					20,000.00
12	Reported Expense					<u>31,474.00</u>
13	Adjustment					<u>(11,474.00)</u>

**Falls Water Company
Rate Base Calculation
as of CYE 2011**

L#

	FWC	Staff Adj	Difference
1 Plant In Service	6,606,672	(806,060)	5,800,612
2 Accumulated Depreciation	(1,589,467)	80,739	(1,508,728)
3 CIAC	(2,588,586)	0	(2,588,586)
4 Net Plant In Service	2,428,619	(725,321)	1,703,298
5 Working Capital 1/8	116,669	1,177	117,846 *
6 Total Rate Base	2,545,288	(724,144)	1,821,144

***Working Capital Calculation**

Using 1/8 of Operating Expenses

Subtotal Operating Expense	\$890,958
Property Taxes	24,552
Payroll Taxes	39,210
State Income Taxes	20
Subtotal	954,740
less: Bad Debts Expense	(10,921)
less: Amortization of Rate Case	(1,054)
Subtotal	942,764
Divisor	8
Working Capital Allowance	\$117,846

Falls Water Company
Adjustments of Revenue & Expenses
Proforma Results of Operations
CYE 2011

	A	B	C	D	E	F
					Other	CYE2011
L#	Acct#		FWC	Deprec	Expense	Totals
1	400.00	Operating Revs				
2	461.10	Metered Residential	1,030,460.52			1,030,460.52
3	461.20	Commercial Revs	41,778.43			41,778.43
4	461.50	Multiple family	32,740.07			32,740.07
5	470.00	Late Payment	4,508.44			4,508.44
6	471.00	Misc Revenues	3,123.90			3,123.90
7		Total Operating Revs	\$1,112,611.36	\$0.00	\$0.00	\$1,112,611.36
8	414.00	Gain\loss on Property	0.00			0.00
9		Total Income	1,112,611.36	0.00	0.00	1,112,611.36
10	600.00	Expenses				
11	601.50	Labor-Field	167,120.00			167,120.00
12	601.80	Labor-Office	29,640.00			29,640.00
13	601.90	Admin-labor	174,000.00			174,000.00
14	604.00	Employee benefits	73,434.64			73,434.64
15	610.00	Purchased Water	3,300.38			3,300.38
16	615.00	Electrcial Power	150,406.11		(18,535)	131,871.11
17	618.00	Chemicals	7,052.10		(427)	6,625.10
18	620.20	Source-M&S	9,950.75			9,950.75
19	620.60	Distribution-M&S	28,491.48			28,491.48
20	620.70	Postage	20,393.40			20,393.40
21	620.80	Office	26,592.17			26,592.17
22	620.81	Telephone	10,992.18			10,992.18
23	620.82	Bank Service Charges	13,014.58			13,014.58
24	620.83	Office Utilities Exp	7,009.17			7,009.17
25	631.10	Engineering	330.00			330.00
26	631.20	Accounting	2,785.00			2,785.00
27	631.40	Payroll Services	255.00			255.00
28	635.00	Testing	6,153.39			6,153.39
29	636.20	Source Contr Repairs	965.22			965.22
30	636.20	Trash	2,103.04			2,103.04
31	636.40	Outsourced Bad Debts	314.64			314.64
32	636.60	Distribution Contract	9,932.38			9,932.38
33	636.70	Data Processing	6,062.00			6,062.00
34	641.00	Rental of Property	53,952.00		(11,957)	41,994.67
35	642.00	Rental of Equipment	31,474.28		(11,474)	20,000.28
36	650.00	Transport Expense	37,815.78			37,815.78
37	656.00	Insurance Expense	18,993.00			18,993.00
38	656.10	Workers Comp Expense	9,584.69			9,584.69

39	660.00 Advertising Expense	683.47			683.47
40	666.00 Rate Case Amtz	1,054.19			1,054.19
41	670.00 Bad Debts Expense	10,921.47			10,921.47
42	675.10 Training Expense	522.00			522.00
43	675.20 Dues & Publications	1,180.06			1,180.06
44	675.40 IDHW Fees	16,872.50			16,872.50
45	subtotal	933,351.07	0.00	(42,393.33)	890,957.74
46	419.00 Interest Earned	(38.69)			(38.69)
47	421.00 non-utility income	(5,112.00)			(5,112.00)
48	403.00 Depreciation Expense	155,892.12	(\$80,739)		75,153.12
49	408.11 Property Taxes	24,552.11			24,552.11
50	408.12 Payroll Taxes	39,209.86			39,209.86
51	409.11 State Income Taxes	20.00			20.00
52	426.00 mlsc Non-Utility Expense	672.00			672.00
53	Total Expenses	1,148,546.47	(80,739.00)	(42,393.33)	1,025,414.14
54	Net Income	(35,935.11)	80,739.00	42,393.33	87,197.22

Falls Water Company
Calculation of Revenue Requirement
FLS-W-12-01

L#

1	Rate Base from Att I, Ln 6	1,821,144			
2	Required Rate of Return	<u>7.23%</u>			
3	Return	131,669			131,669
4					
5	Net Op Income (Excess) Att J, Ln 54	<u>(87,197)</u>			
6	Additional Income Requirement	\$44,471			
7					
8	Taxable and Non-Taxable		GrossUp		
9	Equity	51.37%	22,845	1.419702	32,433
10	Debt	48.63%	21,626	1.110207	24,010
11			<u>44,471</u>		<u>56,443</u>
12					11,971
13	Total Expenses; Att J, Ln 53				<u>1,025,414</u>
14	Total Revenue Requirement				\$1,169,054
15					
16					
17	Gross Up Calculation				
18	Gross Revenues	1.000000			
19	Less Uncollectibles	0.096970			
20	Less 2011 Regulatory Fees	<u>0.002297</u>			
21					
22					
23	Net Revenues	0.900733			
24	State Income Tax-8%	0.072059			
25					
26	Federal Income Tax Base	0.828674			
27					
28	Fed Income Tax Rate 15%	0.124301			
29					
30	Net Operating Revenue	0.704373			
31					
32	Net to Gross Multiplier Equity Return	1.419702			
33					
34	Gross Up Non-Taxable Debt Return	1.1102069			
35					

Falls Water Company Case No. FLS-W-12-01**Revenue Collected at Present Rate Using 2011 Test Year Number of Customers**

Calculated Revenue Collected (see below)	\$1,153,222
Staff Recommended Revenue Requirement	\$1,169,054
Revenue collected over (under) Rev. Req.	-\$15,832

Total Number of Customers	3,840
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MINIMUM CUSTOMER CHARGES

Service Meter Size	Number of Meters	Minimum Volume-Gals	Minimum Charge	Total An. Rev. from Min. Charge
5/8 and 3/4 - inch	3,679	12,000	\$16.10	\$710,783
1-inch	109	17,000	\$22.54	\$29,482
1 1/2 - inch	17	22,000	\$28.98	\$5,912
2 - inch	33	28,000	\$37.03	\$14,664
4 - inch	2	49,000	\$66.01	\$1,584
Total	3,840			\$762,425

COMMODITY CHARGES

Total Annual Excess Volume for all meter sizes (x 1,000 gals)	639,602 *
Commodity charges for all meter sizes (\$/1,000 gals)	\$0.611
Total Commodity Revenue	\$390,797

Revenue from Rates (base and commodity charges)	\$1,153,222
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Revenue collected over (under) Revenue Requirement	-\$15,832
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Various Charges as a % of Gross Revenue

Minimum Charge	66%
Commodity Charge	34%

**Adjusted annual excess volume=605,955 (Order No. 31022)/3,638x3,840=639,602 gallons.*

Falls Water Company Case No. FLS-W-12-01
Rate Proof of Staff -Proposed Rate Design (By Service Meter Size)

Staff Recommended Revenue Requirement	\$1,169,054
Revenue Collected Based on Prop. Rate Design	\$1,169,323
Revenue collected over (under) Rev. Req.	\$269

Total Number of Customers	3,840
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MINIMUM CUSTOMER CHARGES

Service Meter Size	Number of Meters	Minimum Volume-Gals	Minimum Charge	Total An. Rev. from Min. Charge
5/8 and 3/4 - inch	3,679	12,000	\$16.44	\$725,793
1-inch	109	17,000	\$23.02	\$30,105
1 1/2 - inch	17	22,000	\$29.59	\$6,037
2 - inch	33	28,000	\$37.81	\$14,974
4 - inch	2	49,000	\$67.40	\$1,618
Total	3,840			\$778,526

COMMODITY CHARGES

Total Annual Excess Volume for all meter sizes (x 1,000 gals)	639,602 *
Commodity charges for all meter sizes (\$/1,000 gals)	\$0.611
Total Commodity Revenue	\$390,797

Revenue from Rates (base and commodity charges)	\$1,169,323
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Revenue collected over (under) Revenue Requirement	\$269
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Various Charges as a % of Gross Revenue

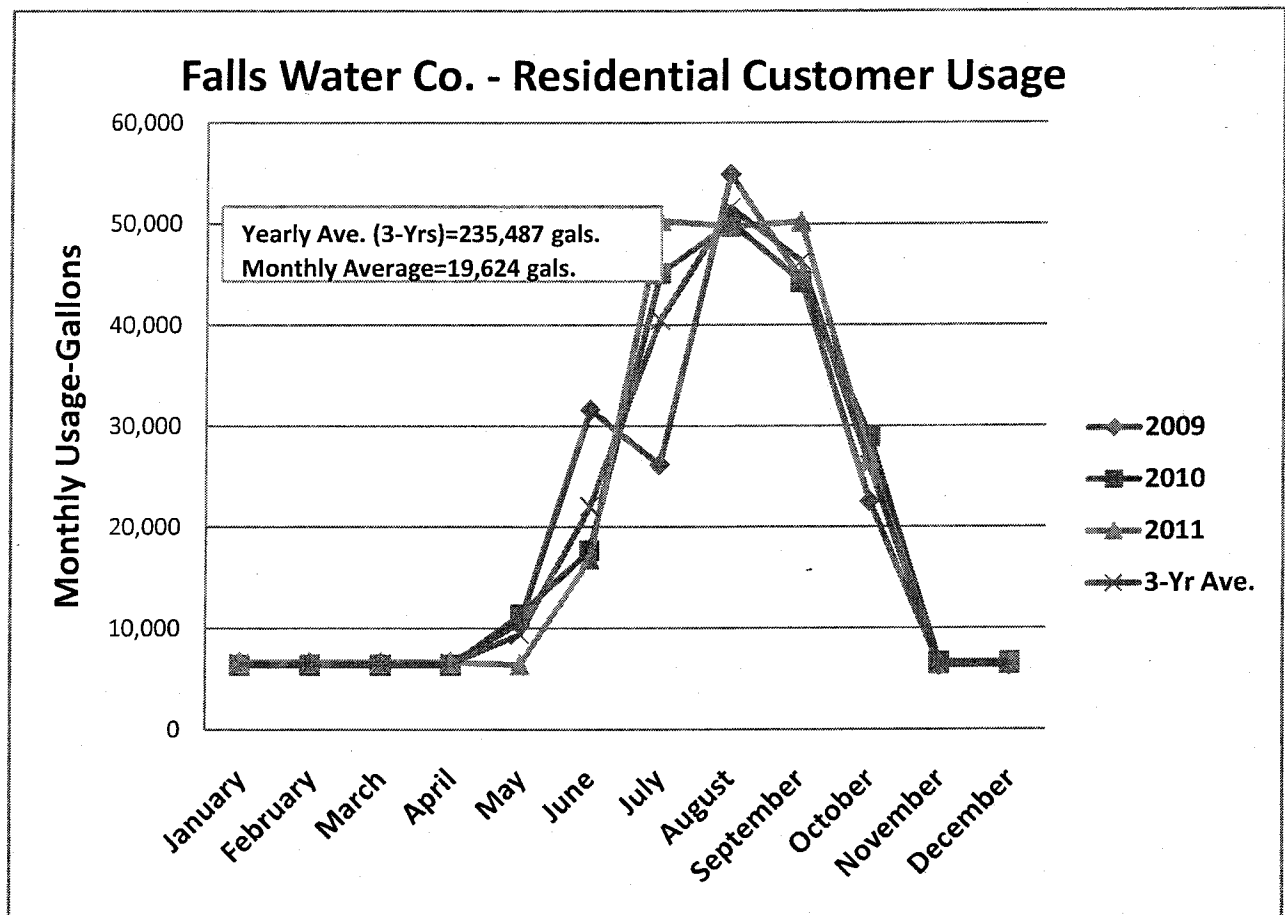
Minimum Charge	67%
Commodity Charge	33%

**Adjusted annual excess volume=605,955 (Order No. 31022)/3,638x3,840=639,602 gallons.*

Falls Water Company Case No. FLS-W-12-01

Monthly Average Consumption- Residential Customers

Month	2009	2010	2011	Average
January	6,632	6,416	6,708	6,585
February	6,632	6,416	6,708	6,585
March	6,632	6,416	6,708	6,585
April	6,632	6,416	6,708	6,585
May	10,595	11,335	6,459	9,463
June	31,645	17,677	16,810	22,044
July	26,157	45,123	50,299	40,526
August	54,872	50,165	49,742	51,593
September	44,517	44,287	50,191	46,332
October	22,514	28,961	26,745	26,073
November	6,416	6,708	6,547	6,557
December	6,416	6,708	6,547	6,557
Annual Total	229,660	236,628	240,173	235,487
Monthly Ave.	19,138	19,719	20,014	19,624



Falls Water Case No. FLS-W-12-01

Rate Impact - 3/4-inch or Less Meter Size Customers

Current Rates Vs. Staff-Proposed Rates

Monthly Usage Gallons	Current Base Rate	Volume Allow. Gallons	Commodity Rate \$/1000 gal	Current Monthly Billing	Staff Poposed Base Rate	Volume Allow. Gallons	Staff Prop. Com. Rate \$/1000 gal	Monthly Billing at Prop. Rate	Difference per Month \$	Percent Difference per month
0	\$ 16.10	12,000	\$ 0.611	\$ 16.10	\$ 16.44	12,000	\$ 0.611	\$ 16.44	\$ 0.34	2.1%
2,000	\$ 16.10	12,000	\$ 0.611	\$ 16.10	\$ 16.44	12,000	\$ 0.611	\$ 16.44	\$ 0.34	2.1%
4,000	\$ 16.10	12,000	\$ 0.611	\$ 16.10	\$ 16.44	12,000	\$ 0.611	\$ 16.44	\$ 0.34	2.1%
5,000	\$ 16.10	12,000	\$ 0.611	\$ 16.10	\$ 16.44	12,000	\$ 0.611	\$ 16.44	\$ 0.34	2.1%
8,000	\$ 16.10	12,000	\$ 0.611	\$ 16.10	\$ 16.44	12,000	\$ 0.611	\$ 16.44	\$ 0.34	2.1%
10,000	\$ 16.10	12,000	\$ 0.611	\$ 16.10	\$ 16.44	12,000	\$ 0.611	\$ 16.44	\$ 0.34	2.1%
12,000	\$ 16.10	12,000	\$ 0.611	\$ 16.10	\$ 16.44	12,000	\$ 0.611	\$ 16.44	\$ 0.34	2.1%
14,000	\$ 16.10	12,000	\$ 0.611	\$ 17.32	\$ 16.44	12,000	\$ 0.611	\$ 17.66	\$ 0.34	2.0%
16,000	\$ 16.10	12,000	\$ 0.611	\$ 18.54	\$ 16.44	12,000	\$ 0.611	\$ 18.88	\$ 0.34	1.8%
18,000	\$ 16.10	12,000	\$ 0.611	\$ 19.77	\$ 16.44	12,000	\$ 0.611	\$ 20.11	\$ 0.34	1.7%
19,624	\$ 16.10	12,000	\$ 0.611	\$ 20.76	\$ 16.44	12,000	\$ 0.611	\$ 21.10	\$ 0.34	1.6% *
20,000	\$ 16.10	12,000	\$ 0.611	\$ 20.99	\$ 16.44	12,000	\$ 0.611	\$ 21.33	\$ 0.34	1.6%
25,000	\$ 16.10	12,000	\$ 0.611	\$ 24.04	\$ 16.44	12,000	\$ 0.611	\$ 24.38	\$ 0.34	1.4%
30,000	\$ 16.10	12,000	\$ 0.611	\$ 27.10	\$ 16.44	12,000	\$ 0.611	\$ 27.44	\$ 0.34	1.3%
35,000	\$ 16.10	12,000	\$ 0.611	\$ 30.15	\$ 16.44	12,000	\$ 0.611	\$ 30.49	\$ 0.34	1.1%
40,000	\$ 16.10	12,000	\$ 0.611	\$ 33.21	\$ 16.44	12,000	\$ 0.611	\$ 33.55	\$ 0.34	1.0%
45,000	\$ 16.10	12,000	\$ 0.611	\$ 36.26	\$ 16.44	12,000	\$ 0.611	\$ 36.60	\$ 0.34	0.9%
50,000	\$ 16.10	12,000	\$ 0.611	\$ 39.32	\$ 16.44	12,000	\$ 0.611	\$ 39.66	\$ 0.34	0.9%

*Monthly cost for a typical customer with average monthly usage of 19,624 gallons.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 15TH DAY OF JUNE 2012,
SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN
CASE NO. FLS-W-12-01, 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



SECRETARY

CERTIFICATE OF SERVICE