

KARL T. KLEIN
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0312
IDAHO BAR NO. 5156

RECEIVED
2012 SEP 28 AM 10:49
IDAHO PUBLIC
UTILITIES COMMISSION

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5918

Attorney for the Commission Staff

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)	COMMISSION STAFF'S
WATER SERVICE.)	SURREPLY
)	

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%. Staff then submitted Comments, and the Company filed a Reply. To assist the Commission in its deliberation, the Commission subsequently authorized Staff to file a short surreply to advise the Commission on whether Staff now accepts any of the Company's positions given the Reply, thereby potentially narrowing the technical issues in dispute. *See* Commission Order No. 32642. Staff files this surreply according to that Order.

SURREPLY

Staff's Comments make 18 recommendations. The Company's Reply fully agrees with eight of them (Nos. 1, 4, 8, 9, 14, 16, 17 and 18). The Company's Reply disagrees or partially agrees with Staff's remaining ten recommendations (Nos. 2, 3, 5, 6, 7, 10, 11, 12, 13 and 15). Given the Company's Reply, Staff modifies its recommendations as follows.

Recommendation No. 6.

Staff's Comments recommended that the Commission use a 10% salvage value and a 35-year depreciable life for Meters with a Depreciation Expense and Accumulated Depreciation of \$80,739. The Company replied that it prefers a 25-year depreciation life and zero salvage value. Staff can accept and support a zero salvage value and a 25-year depreciable life, but only for the Sensus iPerl meter additions, totaling \$126,336. However, the actual useful life of this new metering technology remains unknown, and Staff believes a 25-year depreciable life should not become a precedent. Staff believes Falls Water should be ordered to keep maintenance and replacement records for each composite construction meter, to establish a reliable record to determine the useful life for this new enhanced type of meter.

Affect on Revenue Requirement

Recognizing Staff's acceptance of using a zero salvage value and a 25-year depreciable life, the revenue requirement will increase. Depreciation expense increases by \$1,805, rate base increases to \$1,819,339, and the revenue requirement increases to \$1,171,179.

Affect on Rate Design

The Company disagrees with Staff's recommended rate design, although the Company accepts some of the rate design elements. Specifically, the Company accepts Staff's recommendation to maintain the current volume allowance for various sizes of meters (i.e., 12,000 gallons for ¾-inch meter and smaller). However, because Staff's recommended revenue requirement differs from the Company's, Staff's proposed rate design also differs. Staff designed its proposed customer rates and commodity charges to produce Staff's recommended revenue requirement. The customer and commodity rates must change if the corresponding revenue requirement is changed.

Excess Usage Volume

Revenue from commodity sales depends on the commodity rate and the quantity of water billed at that rate — i.e., excess usage, or the amount of water that exceeds the monthly allowance. Staff's rate calculations assumed an excess usage volume based on: (1) the estimated excess usage volume rate per customer from the Company's last rate case (Case No. FLS-W-09-01, Order No. 31022), and (2) pro forma total number of customers of 3,840. Staff

recommended that the Commission calculate commodity revenue based on an annual excess usage of 639,602,000 gallons.¹

The Company disagrees with Staff's proposed annual excess usage volume of 639,602,000 and instead proposes a total excess usage volume of 573,038,000 gallons (566,024,000 gallons used in 2011 + 7,014,000 gallons for new customers based on 2011 excess usage rate). Staff conditionally accepts the total pro forma excess usage volume of 573,038,000 gallons, which the Company derived based on 2011 customer usage. The Company had not yet provided this information when Staff analyzed this case.

While Staff accepts the Company's calculation of 566,024,000 gallons based on 2011 data, Staff believes that a single year's data does not capture typical usage for Falls Water customers. Traditional rate design normalizes water usage over several years, not a single year or test year. Excess usage data for previous years are not available. But Staff believes it can reasonably normalize the estimated 2011 excess usage by calculating a proportionate ratio of average annual usage for each customer class (i.e. residential, commercial, multi-family) for the last six years (2006 to 2011), and then applying those ratios to the 2011 usage of various customer classes. The use of six years' data is consistent with the period proposed by the Staff in adjusting the annual electric power expenses and the annual chemical expenses, which have been accepted by the Company. The results are shown in the following table:

Customer Type or Class	Company-Prop. Excess Usage (2011 data-gals)*	Percent of Total Excess Usage	Ratio of Average Annual Usage to 2011	Normalized Total Annual Excess Usage
Residential	522,959,000	91.26%	1.05245	550,387,746
Multi-Family	19,296,000	5.37%	0.95724	18,470,918
Commercial	30,406,000	3.37%	1.14916	35,374,471
Total	573,038,000	100.0%	1.05444	604,233,135

**Calculated excess usage over present volume allowance for all meter sizes.*

Staff recommends using 604,233,000 gallons (rounded) as the normalized excess usage volume for estimating the commodity revenue as part of the total Staff-recommended revenue requirement.

¹ Adjusted total annual excess volume = 605,955 (Order No. 31022)/3,638 x 3,840 = 639,602,000 gallons.


Staff's Proposed Rates

Staff maintains its recommendation to leave the commodity rates at the present level and adjust the customer charges for various meter sizes. The customer (base) charges should be recalculated based on the final revenue requirement as approved by the Commission and on the excess volume amounts discussed above. Staff's recommendation to apply the entire increased revenue requirement to the customer charge is contingent upon the Commission accepting Staff's recommended revenue requirement. If the Commission accepts a revenue requirement substantially higher than Staff's recommendation, Staff acknowledges that some increase in the commodity rate may also be appropriate.

SUMMARY

1. Staff can accept a zero salvage value and a 25-year depreciable life.
2. The Staff revised rate base increases to \$1,819,339 and the revenue requirement increases to \$1,171,179.
3. The Company-provided excess usage volumes can be utilized in part for Staff's rate design methodology.

Respectfully submitted this 28th day of September 2012.


Karl T. Klein
Deputy Attorney General

Technical Staff: Gerry Galinato
Chris Hecht
John Nobbs

i:umisc/comments/flsw12.1kkgdgjncwh reply comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 28TH DAY OF SEPTEMBER 2012, SERVED THE FOREGOING **COMMISSION STAFF'S SURREPLY**, 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