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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF STONERIDGE WATER COMPANY FOR AN INCREASE IN RATES AND CHARGES AND TO MODIFY RULES AND REGULATIONS	**CASE NO. SWS-W-06-1** **REPLY COMMENTS OF THE COMMISSION STAFF**

On November 20, 2006, Stoneridge Water Company filed an Application for an increase in rates and charges and changes to its rules and regulations. On December 18, 2006, the Commission issued a Notice of the Company's Application and authorized the use of Modified Procedure to process that Application. Order No. 30204. On February 16, 2007, the Commission established a comment deadline under Modified Procedure of April 27, 2007.

On April 27, 2007, the Commission Staff as well as Stoneridge Recreational Club Condominium Owners Association, Inc. (Stoneridge Resort), the only intervenor in this case, filed comments. On May 14, 2007, both the Company and the Intervenor filed Replies to the Comments of Staff.

Based upon the Replies to its Comments, Staff is compelled to make certain corrections to its Comments filed on April 27, 2007. Because these corrections have a rather large impact upon the Company's Revenue Requirement, a change in Staff's recommended rate design is also warranted.

CORRECTIONS TO RATE BASE

In the Company's Reply to Staff's Comments in this Case, the Company raises the issue that Staff failed to accurately consider investments made by the Company as part of the Company's rate base. After reviewing the information provided by the Company, Staff agrees that it failed to accurately consider some investments made by the Company, and failed to include an additional $52,373 of capital expenditures in rate base. The additional expenditures made by the Company were for items associated with capital improvements made as part of the previously described Phase I and Phase II improvements. Staff examined these expenditures and determined that the Company incurred these costs above and beyond the costs incurred and paid for with the Phase I and Phase II loan proceeds. Also, Staff recommends that these expenditures were reasonable and prudent expenditures for capital improvements that are currently used and useful in providing service. Staff is requesting that the Commission determine that the rate base amount Staff set forth in its Comments of $51,254 be increased by the $52,373. This will make the Company's total rate base $103,627.

Staff also wishes to correct a typographical error from page 14 and page 20 of its original comments. The total monthly surcharge per customer for the Happy Valley Ranchos Phase I, interconnection loan repayment should be $16.83 as stated in the chart on page 14. The $16.64 amount stated in the text of page 14 and 20 is an error.

When the corrected amount of rate base is used, the Company's revenue requirement should be increased by $8,002. Staff's original Comments stated that the total revenue requirement should be $132,350; now with the additional rate base, the new revenue requirement is $140,352. See Attachment A, which is meant to amend Staff's Exhibit 106.

CORRECTIONS TO METER SIZES

Staff's recommended rate design utilized a varying customer charge based upon meter size. This calculation uses a standard residential ¾ inch meter as a base charge, and all other customer's minimum charges are set as a multiple of this base, using the flow area ratio as the multiplier. Staff continues to support and recommend this methodology. However, the Company has identified a number of changes and corrections to the actual meter sizes that are/will be installed on the system. The changes include reductions in both the number of meters and the size of several meters. Additionally, there was an error in Staffs spreadsheet calculation utilized in Staff's original Comments. The net effect of these changes combined with the additional rate base revenue requirement is to create a revenue shortfall of $37,670, using the rates as proposed in Staff's original Comments.

CLARIFICATION OF THE RECONNECTION FEE (SEASONAL DISCONNECTS)

Staff, in its filed Comments, proposed a reconnection fee of $65 for customers that are disconnected for periods greater than 30 days ($83.50 after hours). Staff believes that this fee is necessary to discourage seasonal disconnections, which undermine the company's revenue and therefore their ability to maintain facilities capable of delivering the peak water demand. Because commercial customers had not historically disconnected, Staff was focused on the residential customers but is now aware that larger customers, specifically referring to the golf course, might disconnect for the winter season. For the same reasons that staff proposed a varying customer charge based on meter size, Staff believes that the reconnection charge should also be proportional to the flow area of the meter, or proportional to the customer charge. The after hours differential should be $25 higher than the charge for normal working hours.

Staff's original proposal:	$65 reconnection fee for disconnects longer than 30 days
Staff revised proposal:	$65 for a standard ¾" meter and proportionately increase the fee based on the flow area of the meter. For example:

¾"	$65
2"	$462
6"	$4160

These rates are summarized in Attachment B.

CORRECTED RATE DESIGN

Because of the accounting adjustment that increased the revenue requirement and the reduction in revenue that would result from the changes in meter size, the Staff's originally proposed rate design will no longer produce the necessary revenue requirement. The new revenue requirement is $140,352.

Staff is proposing a customer charge of $24 for a standard ¾ inch meter. Larger meters would be charged an increased rate in proportion to the area of the meter. This is the same methodology originally proposed by Staff. The commodity charge would be $0.79/1,000 gallons for all customers and all usage except the golf course, which would receive a 10% discount in the commodity rate to $0.71/1,000 gallons because it has interruptible service and the ability to take service during off-peak hours. This is consistent with Staff's original comments where the commodity rate for the golf course was also set at a 10% discount.

Staff's original proposal: $18.10/month for a ¾" meter and $0.53/1,000 gal. (10% discount to golf course)

Staff revised proposal: $24/month for a ¾" meter and $0.79/ 1,000 gal. (10% discount to golf course)

These rates and rate design are summarized in Attachment C.

GOLF COURSE RATE

The Company has raised concern that if the annual cost to the Golf course exceeds about $45,000 they would opt for drilling their own well at an estimated cost of $100,000. Staff acknowledges that this is a valid concern and also notes that the Golf course is an interruptible customer.

The annual cost to the golf course under Staff's proposed rates is $46,071. After communicating this to the Company's representative, the Company responded that Staff's rate design of $24.00 base charge on a ¾" meter, with a customer charge varying based upon meter size as set forth in Staff Comments, and a commodity charge of $0.79/1,000 gallons with an irrigation (golf course) discount of 10% is agreeable.

CONCLUSION

Based on the corrections set forth by Staff in these Reply Comments, Staff's Recommendations set forth in its original Comments should be modified as follows:

1) Rate base is $103,627, not $51,254.19;
2) Revenue Requirement is $140,352, not $132,350;
3) The total monthly surcharge per customer for the Happy Valley Ranchos Phase I, interconnection loan repayment should be $16.83, not $16.64;
4) The base ¾" meter charge is $24.00, not $18.10; and the commodity charge is $0.79/1,000 gallons, not $0.53/1,000 gallons;
5) The Reconnection Fee scales proportionately just like the monthly customer charge, as shown in Attachment B.

All of the remaining recommendations and rationale contained in Staff's original Comments, which were not addressed in these Reply Comments, remain as stated in the original Comments.

Respectfully submitted this 1st day of June, 2007.

Donovan E. Walker
Deputy Attorney General

Technical Staff: Joe Leckie
Dave Schunke

Stoneridge Water Company			
Case No. SWS-W-06-01			
Rate Case			
Amended Revenue Requirement Calculation - Post Comments			
Rate Base	$ 8,618.00	Attachment 105	$ 14,903
Annual Expenses	$ 116,072.70	Attachment 104	$ 116,073
Depreciation	$ 6,181.00	Attachment 101	$ 6,181
Grossed-up Taxes	$ 1,478.00	See Below	$ 3,195
(See Calculation Below)			
Revenue Requirement	$ 132,349.70		$ 140,352
Calculation of Taxes			
Income from Return on RB	$ 8,618		$ 14,903
Less Interest Expense	$ (3,210)		$ (3,210)
Taxable Income	$ 5,408		$ 11,693
State Taxes @ 7.6%	$ 411		$ 889
Federal Taxes @ 15%	$ 750		$ 1,621
Net income after tax	$ 4,247		$ 9,184
Gross Up Multiplier:			
Beginning	100.0000%		
State Tax @ 7.6%	7.6000%		
Federal Taxable	92.4000%		
Federal Tax @ 15%	13.8600%		
Net After Tax	78.5400%		
Net to Gross Multiplier	127.3237%		
Tax Liability x Gross-up Factor			
[($411 + $750) x 1.273237]	$ 1,478		
[($889 + $1621) X 1.273237]			$ 3,195
			Amended

Exhibit 106

ATTACHMENT A
CASE NO. SWS-W-06-1
STAFF REPLY COMMENTS
6/01/07

Meter Diameter	Meter Flow Area	Ratio to Flow Area of 3/4 in Mtr	Resulting Minimum Charge	Reconnection charge for disconnection over 30 days normal working hours
0.750	0.442	1	$24.00	$65
1.000	0.785	1.78	$42.67	$116
1.500	1.766	4.00	$96.00	$260
2.000	3.140	7.11	$170.67	$462
2.500	4.906	11.11	$266.67	$722
3.000	7.065	16.00	$384.00	$1,040
4.000	12.560	28.44	$682.67	$1,849
6.000	28.260	64.00	$1,536.00	$4,160

ATTACHMENT B
CASE NO. SWS-W-06-1
STAFF REPLY COMMENTS
6/01/07

Revenue Calculation Results

SWS Water **Rev. Reqrmnt = $140,352.00**

	Customer Class Total Annual Bill	Customer Monthly Average Bill	% Increase
HVR Res	$35,698.46	$29.45	83%
SR Res	$38,716.90	$28.55	88%
Motor Coach	$1,406.17	$2.09	
Commercial	$2,486.16	$41.44	84%
Golf Course	$46,071.31	$3,839.28	65%
Time Share	$16,334.14	$9.07	544%
Total Resulting Revenue	**$140,713.14**	N/A	76%
Base Min Charge	**$24.00**	**/month**	71%
Commodity Rate	**$0.79**	**/1,000 Gallon**	163%
Golf Course commodity discount	10.0%		

ATTACHMENT C
CASE NO. SWS-W-06-1
STAFF REPLY COMMENTS
6/01/07

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 1ST DAY OF JUNE 2007, SERVED THE FOREGOING **REPLY COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. SWS-W-06-1, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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