

Troy Hoffman Water Corp.

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IDAHO PUBLIC
UTILITIES COMMISSION

December 2, 2010

Scott Woodbury
Deputy Attorney General
Idaho Public Utilities Commission
PO Box 83720
Boise, ID 83720-0074

RE: Case No. TRH-W-10-01 – Response to Comments of the Commission Staff

Dear Mr. Woodbury:

We first would like to respond to the Staff comments regarding the Annual Operating Expenses:

Annual Operating Expenses

Labor – Operations & Maintenance:

We accept the Staff's recommendation to continue to pay Ron Stadley \$825 per month as the licensed water master (\$9,900 annually). Ken Murren is our licensed backup operator which is something we are required to have. We do request an allowance of \$83.33 per month (\$1,000 annually) for his services. This would increase the total for this category to \$10,900 annually.

Contract Services – Office & Accounting:

In our rate increase application, we included bookkeeping services under the Contract Services – Professional category. (The categories the Staff used in their comments are slightly different than the ones we used in our application). Staff increased the Contract Services – Office & Accounting category by \$3,600 for the bookkeeping service (\$300 per month). Staff stated that in reviewing the company history, this is the amount that was paid to an independent service provider in 2004 and 2005 which is correct. The cost of bookkeeping has increased since 2004. Therefore, we request that a 5% increase per year be figured in to this total, bringing the amount up to \$400 per month or \$4,800 annually.

In addition, now that we as the new owners are running all of the company operations out of the All Service Electric offices, we request that \$200 per month or \$2,400 annually be added to this category for office space rental. This is a new expense as we are now using their offices in addition to them providing the ongoing bookkeeping services.

In our application we put this office space rental amount under the Rentals – Property & Equipment category (the \$2,400 that Staff recommended for this category for equipment rental expenses was under the Materials & Supplies – Operation & Maintenance category in our application).

We accept the Staff's recommendation to include \$400 annually for the meter reading expenses. In addition, we request an annual amount of \$400 be included for lawn maintenance for the pump house. We had originally included this under the Contract Services – Professionals category. This \$400 annual amount would equate to \$20 per week for 20 weeks (5 months – May through September).

In summary, we are requesting that the total amount for this category be raised to a total of \$8,000 to include \$4,800 for bookkeeping services, \$2,400 for office space rent, \$400 for meter reading costs and \$400 for landscaping costs.

Transportation Expenses:

Staff stated they were unable to find any ongoing reoccurring expense that would justify the \$500 annual amount we requested and therefore excluded this entire amount. Staff is correct in their findings. Until this rate increase application, we were unaware that we should be reimbursed for mileage for using personal vehicles for company business. The company does not own any vehicles. Therefore, it seems fair and reasonable that the owners would be reimbursed monthly by the company for miles used in their personal vehicles for company business. \$500 annually equates to approximately 83 miles per month at \$0.50 per mile which is the 2010 IRS standard rate. This includes monthly mileage for driving within the system/customer locations, water testing, banking and mailing.

Under the RECOMMENDATIONS section on Page 21, the recommendation for a \$20 returned check charge was not listed though it was addressed and recommended on Page 18. We simply want to make sure that it is not overlooked because it was not mentioned in the summary of recommendations at the end.

Secondly, we would like to respond to some of the customer comments sent to the IPUC regarding this rate increase case:

Some customers said we did not notify them regarding our application. On June 30, 2010 we mailed a letter to every customer along with the annual CCR report and the Annual Rules Summary. We also place a Press Release in the Coeur d'Alene Press that ran on June 11, 2010.

We understand the concerns regarding those people living on fixed income and impact of the current economy. These are legitimate concerns. We were aware that because there has not been a rate increase for over 14 years that the amount being requested would appear extreme to some people. We thought it was best to submit all costs needed to run the company in the rate increase, being very mindful that the IPUC would take the customer "sticker shock" factor into serious consideration. We were confident that the IPUC would do their best to come up with a fair compromise for both the Company and the customer.

Some customers wonder why we asked for such a large increase because they assumed the previous owners were making a profit or else they would have applied for a rate increase within these last 14 years. While we cannot speak to the "why" of the previous owner's decision not to apply for a rate increase in the last 14 years, we do know that they were running the company at an annual loss as costs went up over these last 14 years. We knowingly inherited this annual loss when we purchased the water system, knowing that a rate increase was needed. If rate increases had been done on a regular basis, this would have allowed the company to make a reasonable

profit rather than running at a deficit and the customers would have seen a gradual increase along the way rather than such a large amount at one time.

Dalton Square purchased the water system for \$65,000 which included both the land valuation and the value of the business entity itself. The 2009 Idaho State Tax Commission's valuation of the system is \$16,081. This does not take into consideration the value of the business entity. As stated in the IPUC paperwork for the approval of the purchase, Dalton Square is aware that the State's valuation is the accepted amount by the IPUC and not the \$65,000 as far as the rate structure is concerned. In addition, the purchase of the water system was paid for by Dalton Square and is not on the Troy Hoffman Water financial books. Some customers are concerned that we are trying to recoup the difference in the purchase price and the State's valuation. This is simply not the case and the evidence of that is clear in the financial data submitted in our application, along with the fact that the Staff has reviewed all of our financial information and would not allow us to do that had we tried.

Some customers are upset that shortly after purchasing the water system we replaced the main pump. They question the timing of this necessity so shortly after we purchased the system. The pump that was replaced was the original pump installed in 1956. That means the original pump had been used for 53 years. We were fully aware when we purchased the water system of the age of the water pump and that upgrades and replacements were going to be needed in the near future. The previous owners did very few improvements. Therefore, we knew it was only a matter of time that the main pump would need to be replaced. We just did not intend to replace it so soon after purchasing the water system, but the circumstances of the motor on the pump burning up forced us to do it sooner than expected. The Staff have reviewed the costs of replacing the pump and have determined that the costs involved to replace the pump were reasonable.

Some customers question why we are "forcing" them to install backflow prevention assemblies and have them tested each year at their expense. This is mandated by the United States Environmental Protection Agency (EPA). It is therefore also mandated by the State of Idaho, Idaho Department of Environmental Quality and the City of Coeur d'Alene. We are therefore mandated to bring our water system into compliance with these federally mandated rules. It is for the personal protection of every person on the water system. More information can be found under the Idaho Rules for Public Drinking Water Systems, Section 558.06 on pages 116 and 117 at the following website: <http://adm.idaho.gov/adminrules/rules/idapa58/0108.pdf>.

Finally, we want the IPUC and our customers to know that we are highly committed as the new owners of Troy Hoffman Water Corp. to provide the highest quality of water and service to our customers as possible and to take excellent care of the water system structure to ensure an ongoing quality water system for years to come.

Sincerely,



Ron Stadley
President